

West Swanzey Water Company

Computation of Revenue Deficiency

For the Test Year Ended December 31, 2016

	<u>Actual</u>	<u>Proforma</u>
Rate Base (Schedule 3)	\$ 343,624	\$ 344,831
Rate of Return (Schedule 4)	<u>5.05%</u>	<u>5.05%</u>
Operating Income Required	\$ 17,367	\$ 17,428
Net Operating Income (Schedule 1)	<u>(14,310)</u>	<u>17,428</u>
Operating Income Surplus (Deficiency)	\$ (31,677)	\$ (0)
Tax Effect		<u>-</u>
Revenue Surplus (Deficiency)	<u>\$ (31,677)</u>	<u>\$ (0)</u>

Statement of Income

Line No.	Account Title (Number) (a)	Actual 2016 Year End Balance (b)	Proforma Adjustments (c)	Proforma 2016 Year End Balance (d)	Actual 2015 Year End Balance (e)	Actual 2014 Year End Balance (f)
	UTILITY OPERATING INCOME					
1	Operating Revenues(400)	\$ 69,906	\$ 39,872	\$ 109,778	\$ 77,953	\$ 74,578
2	Operating Expenses:					
3	Operating and Maintenance Expense (401)	64,858	6,677	71,535	45,693	46,693
4	Depreciation Expense (403)	15,507	206	15,713	15,120	15,376
5	Amortization of Contribution in Aid of Construction (405)	(6,050)		(6,050)	(6,050)	(5,057)
6	Amortization of Utility Plant Acquisition Adjustment (406)					
7	Amortization Expense-Other (407)	207		207	207	207
8	Taxes Other Than Income (408.1-408.13)	9,694	0	9,694	8,238	8,195
9	Income Taxes (409.1, 410.1, 411.1, 412.1)		1,251	1,251		
10	Total Operating Expenses	\$ 84,216	8,134	\$ 92,350	\$ 63,208	\$ 65,414
11	Net Operating Income (Loss)	(14,310)	31,738	17,428	14,745	9,164
12	Other Income and Deductions					
13	Interest and Dividend Income (419)					
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)					
18	Interest Expense (427)	(5,925)		(5,925)	(7,241)	(7,764)
19	Taxes Applicable to Other Than Income (409.2, 410.2, etc.)					
20	Total Other Income and Deductions	\$ (5,925)		\$ (5,925)	\$ (7,241)	\$ (7,764)
21	NET INCOME (LOSS)	\$ (20,235)	\$ 31,738	\$ 11,503	\$ 7,504	\$ 1,400

West Swanzey Water Company
Statement of Income - Proforma Adjustments

Schedule 1A

Operating Revenues

2016 Test Year Proforma	\$109,778
2016 Test Year Actual	<u>69,906</u>
Proforma Adjustment	<u>\$39,872</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 Proforma Adjustment to Operating Revenues **\$39,872**

Operating Expenses:

2016 Test Year Proforma - Meter Reading Expenses	\$ 800
2016 Test Year Actual - Meter Reading Expenses	<u>700</u>
Proforma Adjustment - Meter Reading Expenses	<u>\$ 100</u>
2016 Test Year Proforma - Customer Records and Collection	\$ 4,400
2016 Test Year Actual - Customer Records and Collections	<u>3,800</u>
Proforma Adjustment - Customer Records and Collection	<u>\$ 600</u>
2016 Test Year Proforma - Miscellaneous Customer Expenses	\$ 800
2016 Test Year Actual - Miscellaneous Customer Expenses	<u>700</u>
Proforma Adjustment - Miscellaneous Customer Expenses	<u>\$ 100</u>
2016 Test Year Proforma - Supervision Fees	\$ -
2016 Test Year Actual - Supervision Fees - Gorden Water LLC	<u>600</u>
Proforma Adjustment - Supervision Fees	<u>\$ (600)</u>
2016 Test Year Proforma - Supervision Fees - Everett E. Houghton Co., Inc.	\$ 4,177
2016 Test Year Actual - Supervision Fees	<u>-</u>
Proforma Adjustment - Supervision Fees	<u>\$ 4,177</u>
2016 Test Year Proforma - Supervision Fees	\$ 11,500
2016 Test Year Actual - Supervision Fees	<u>10,000</u>
Proforma Adjustment - Supervision Fees	<u>\$ 1,500</u>
2016 Test Year Proforma - Audit Costs	\$ 800

2016 Test Year Actual - Audit Costs	<u>-</u>
Proforma Adjustment - Audit Costs	<u>\$ 800</u>
To adjust test year operating expenses	
Total Proforma Adjustment to Operating Expenses	<u>\$ 6,677</u>

Depreciation Expenses:

2016 Test Year Proforma	\$ 15,713
2016 Test Year Actual	<u>15,507</u>
Proforma Adjustment - Depreciation Expenses	<u>\$ 206</u>

To adjust test year expense for additional half year depreciation on 2016 additions to plant

Taxes other than Income

Town of Swanzey

2016 Test Year Proforma	\$9,694
2016 Test Year Actual	<u>9,694</u>
Proforma Adjustment	<u>\$0</u>

To adjust test year expenses for additional state and local property taxes

Total Proforma Adjustments to Taxes other than Income	<u>\$0</u>
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Income Taxes

Federal Income Taxes

2016 Test Year Proforma	\$773
2016 Test Year Actual	<u>-</u>
2016 Test Year Proforma	<u>\$773</u>

To adjust test year expenses for the increase in federal income taxes due to the increase in revenue

State Business Taxes

2016 Test Year Proforma	\$479
2016 Test Year Actual	<u>-</u>
Proforma Adjustment	<u>\$ 479</u>

To adjust test year expenses for the increase in state business taxes due to the increase in revenue

Total Proforma Adjustments to Income Taxes	<u>\$1,251</u>
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Total Proforma Adjustment to Operating Expenses	<u>\$ 8,134</u>
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West Swanzey Water Company**Schedule 1B****Income Tax Computation**

	<u>Actual</u>	<u>Proforma</u>
Total Rate Base	\$343,624	\$344,831
Equity Component of Cost of Capital	<u>1.27%</u>	<u>1.27%</u>
Operating Net Income Required	\$4,363	\$4,379
Tax Effect (.2858)	<u>1,247</u>	<u>1,251</u>
Income Required before Income Taxes	\$5,610	\$5,630
Less: NH Business Profits Tax @ 8.5%	<u>477</u>	<u>479</u>
Income subject to Federal Taxes	\$5,134	\$5,152
Less: Federal Income Tax @ 15%	<u>770</u>	<u>773</u>
Income after Income Taxes	<u>\$4,363</u>	<u>\$4,379</u>

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	15.00%
Effective Federal Income Tax Rate	13.73%
Add: NH Business Profit Tax	8.50%
Effective Tax Rate	22.23%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	22.23%
Percent Used as a Divisor in Determining the Revenue Requirement	77.78%
Tax Multiplier	28.58%

Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Actual 2016 Year End Balance (b)	Actual 2015 Year End Balance (c)	Actual 2014 Year End Balance (d)
UTILITY PLANT				
1	Utility Plant (101-106)	\$ 477,702	\$ 473,699	\$ 469,089
2	Less: Accumulated Depr. and Amort. (108-110)	\$ 227,887	\$ 212,504	201,006
3	Net Plant	\$ 249,815	\$ 261,195	\$ 268,083
4	Utility Plant Acquisition Adj. (Net) (114-115)			
5	Total Net Utility Plant	\$ 249,815	\$ 261,195	\$ 268,083
OTHER PROPERTY AND INVESTMENTS				
6	Nonutility Property (121)			
7	Less: Accumulated Depr. and Amort. (122)			
8	Net Nonutility Property			
9	Utility Investments (124)			
10	Depreciation Funds (127)			
11	Total Other Property & Investments			
CURRENT AND ACCRUED ASSETS				
12	Cash (131)	3,195	3,311	7,887
13	Special Deposits (132)			
14	Accounts and Notes Receivable-Net (141-143)	28,818	13,001	12,057
15	Materials and Supplies (151)	696	696	75
16	Prepayments (162-163)	4,313	3,366	3,274
17	Misc. Current and Accrued Assets (174)		24,394	17,705
18	Total Current and Accrued Assets	\$ 37,022	\$ 44,768	\$ 40,998
DEFERRED DEBITS				
19	Miscellaneous Deferred Debits (186)	5,826	6,320	6,814
20	Accumulated Deferred Income Taxes (190)			
21	Total Deferred Debits	\$ 5,826	\$ 6,320	\$ 6,814
TOTAL ASSETS AND OTHER DEBITS				
		\$ 292,663	\$ 312,283	\$ 315,895

Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Actual 2016 Year End Balance (b)	Actual 2015 Year End Balance (c)	Actual 2014 Year End Balance (d)
	EQUITY CAPITAL			
1	Common Stock Issued (201)	\$ 30,471	\$ 30,471	\$ 30,471
2	Preferred Stock Issued (204)			
3	Other Paid-In Capital (211)			
4	Retained Earnings (217)	(9,760)	10,474	2,970
5	Proprietary Capital (proprietorships & partnerships) (218)			
6	Total Capital	\$ 20,711	\$ 40,945	\$ 33,441
	LONG TERM DEBT			
7	Other Long-Term Debt (224)	135,864	150,244	163,634
	CURRENT AND ACCRUED LIABILITIES			
8	Accounts Payable (231)	47,195	25,092	17,847
9	Notes Payable (232)			
10	Customer Deposits (235)			
11	Accrued Taxes (236)	-	1,385	103
12	Accrued Interest (237)			
13	Misc. Current and Accrued Liabilities (241)	799	473	676
14	Total Current and Accrued Liabilities	\$ 47,994	\$ 26,950	\$ 18,626
	Other Liabilities			
15	Advances for Construction (252)			
16	Other Deferred Credits (253)			
17	Accumulated Deferred Investment Tax Credit (255)			
18	Miscellaneous Operating Reserves (265)			
19	Contributions In Aid of Construction - Net (271-272)	88,094	94,144	100,194
20	Accumulated Deferred Income Taxes (281-283)			
21	TOTAL LIABILITIES AND CAPITAL	\$ 292,663	\$ 312,283	\$ 315,895

West Swanzey Water Company

Schedule 3

Rate Base

Line No.	Account Title (a)	12/31/2015 Year End Balance (b)	3/31/2016 (c)	6/30/2016 (d)	9/30/2016 (e)	12/31/2016 Year End Balance (f)	Average Year End Balance (g)	Proforma Adjustments (h)	Proforma Average Balance (i)
1	Plant in Service	\$473,699	\$473,802	\$477,702	\$477,702	\$477,702	\$476,121		\$476,121
2	Less: Accumulated Depreciation	<u>212,504</u>	<u>216,102</u>	<u>220,031</u>	<u>223,960</u>	<u>227,887</u>	<u>220,097</u>	<u>206</u>	<u>220,303</u>
3	Net Utility Plant	261,195	257,700	257,671	253,742	249,815	256,025	(206)	255,819
4	Material and Supplies	696	696	696	696	696	696		696
5	Prepayments	3,366	1,188	8,704	5,605	4,313	4,635		4,635
6	Contribution in Aid of Construction	(151,157)	(151,157)	(151,157)	(151,157)	(151,157)	(151,157)		(151,157)
7	Accumulated Amortization of CIAC	<u>57,013</u>	<u>58,526</u>	<u>60,038</u>	<u>61,551</u>	<u>63,063</u>	<u>60,038</u>		60,038
8	Rate Base	\$326,604	<u>\$324,529</u>	<u>\$335,945</u>	<u>\$332,846</u>	<u>\$331,554</u>	<u>\$330,295</u>	<u>\$0</u>	<u>\$330,295</u>
9	Cash Working Capital (1)	9,390				<u>13,328</u>	<u>13,328</u>	<u>\$1,208</u>	<u>\$14,536</u>
10	Total Rate Base	<u>\$335,994</u>				<u>\$344,882</u>	<u>\$343,624</u>	<u>(\$206)</u>	<u>\$344,831</u>
	(1) Cash Working Capital Average Year End Balance is the same as the December 2016 Balance.								

Prepayments

For the Test Year Ended December 31, 2016

	Insurance		Property Taxes		Total
12/31/2015		1,633.50		1,732.00	3,365.50
1/31/2016	148.50	1,485.00	577.33	1,154.67	2,639.67
2/28/2016	148.50	1,336.50	577.33	577.34	1,913.84
3/31/2016	148.50	1,188.00	577.34	-	1,188.00
4/30/2016			10,615.00	10,615.00	
4/30/2016	148.50	1,039.50	884.58	9,730.42	10,769.92
5/31/2016	148.50	891.00	884.59	8,845.83	9,736.83
6/30/2016	148.50	742.50	884.58	7,961.25	8,703.75
7/31/2016	148.50	594.00	884.58	7,076.67	7,670.67
8/31/2016	148.50	445.50	884.59	6,192.08	6,637.58
9/30/2016	148.50	297.00	884.58	5,307.50	5,604.50
10/31/2016	148.50	148.50	884.58	4,422.92	4,571.42
11/30/2016	148.50	-	884.59	3,538.33	3,538.33
12/31/2016	1,810.00	1,810.00			
12/31/2016	150.83	1,659.17	884.58	2,653.75	4,312.92

West Swanzey Water Company

Schedule 3B

Rate Base - Proforma Adjustments

Accumulated Depreciation and Amortization

2016 Test Year Proforma Accumulated Depreciation and Amortization	\$ 228,093
2016 Test Year Actual Accumulated Depreciation and Amortization	<u>227,887</u>
Proforma Adjustment - Accumulated Depreciation and Amortization	<u>\$ 206</u>

To adjust test year accumulated depre and amort for add'l half year depr on 2016 additions to plant

Cash Working Capital

12/31/16 Test Year Proforma Cash Working Capital	\$ 14,536
12/31/16 Test Year Actual Cash Working Capital	<u>13,328</u>
Proforma Adjustment - Cash Working Capital	<u>\$1,208</u>

To adjust test year cash working capital balance

West Swanzey Water Company**Schedule 3C****Working Capital**

	2016 Proforma <u>Amount</u>	2016 Actual <u>Amount</u>	2015 Actual <u>Amount</u>
Operating and Maintenance Expenses	\$70,735	\$64,858	\$45,693
75/365	<u>20.55%</u>	<u>20.55%</u>	<u>20.55%</u>
Working Capital	<u>\$14,536</u>	<u>\$13,328</u>	<u>\$9,390</u>

Rate of Return Information

Proforma Overall Rate of Return		Component Ratio		Component Cost Rate		Weighted Average Cost Rate
Equity Capital		13.23%		9.60%		1.27%
Long Term Debt		86.77%		4.36%		3.78%
Total Capital		100.00%				5.05%

Actual Overall Rate of Return		Component Ratio		Component Cost Rate		Weighted Average Cost Rate
Equity Capital		13.23%		9.60%		1.27%
Long Term Debt		86.77%		4.36%		3.78%
Total Capital		100.00%				5.05%

Capital Structure for Ratemaking Purposes	2016 Prof Amounts		2016 Prof Ratios		2016 Actual Amounts		2016 Actual Ratios
Common Stock	\$ 30,471		19.46%		\$ 30,471		19.46%
Other Paid in Capital							
Retained Earnings	(9,760)		-6.23%		(9,760)		-6.23%
Total Equity	\$ 20,711		13.23%		\$ 20,711		13.23%
Long Term Debt	\$135,864		86.77%		\$135,864		86.77%
Total Capital	\$ 156,575		100.00%		\$ 156,575		100.00%

Capital Structure for 2016 - 2014	2016 Proforma		2016 Amounts		2015 Amounts		2014 Amounts
Common Stock	\$ 30,471		\$ 30,471		\$ 30,471		\$ 30,471
Other Paid in Capital							
Retained Earnings	(9,760)		(9,760)		10,474		2,970
Total Equity	\$ 20,711		\$ 20,711		\$ 40,945		\$ 33,441
Long Term Debt	\$135,864		\$135,864		\$ 150,244		\$ 163,634
Total Capital	\$ 156,575		\$ 156,575		\$ 191,189		\$ 197,075

Capital Structure Ratios for 2016 - 2014	2016 Prof Ratios	2016 Actual Ratios	2015 Ratios	2014 Ratios
Common Stock	19.46%	19.46%	15.94%	15.46%
Other Paid in Capital	0.00%	0.00%	0.00%	0.00%
Retained Earnings	-6.23%	-6.23%	5.48%	1.51%
Total Equity	13.23%	13.23%	21.42%	16.97%
Long Term Debt	86.77%	86.77%	78.58%	83.03%
Total Capital	100.00%	100.00%	100.00%	100.00%

Long Term Debt	2016 Prof Amount	2016 Actual Amount	2015 Actual Amount	2014 Actual Amount
1999 Granite Bank Loan	\$7,051	\$7,051	\$10,156	\$12,739
2003 Granite Bank Loan	92,831	92,831	102,622	112,137
2013 State Revolving Fund	35,982	35,982	37,466	38,758
Total Long Term Debt	\$135,864	\$135,864	\$150,244	\$163,634

Proforma Cost of Debt	2016 Prof Amount	Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
1999 Granite Bank Loan	\$7,051	3.75%	\$117	\$20	\$137	1.94%
2003 Granite Bank Loan	92,831	6.50%	5,010	256	5,266	5.67%
2013 State Revolving Fund	35,982	2.72%	304	218	522	1.45%
Total Cost of Debt	\$135,864		\$5,431	\$494	\$5,925	4.36%

Actual Cost of Debt	2016 Act Amount	Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
1999 Granite Bank Loan	\$7,051	3.75%	\$117	\$20	\$137	1.94%
2003 Granite Bank Loan	92,831	6.50%	5,010	256	5,266	5.67%
2013 State Revolving Fund	35,982	2.72%	304	218	522	1.45%
Total Cost of Debt	\$135,864		\$5,431	\$494	\$5,925	4.36%

Cost of Common Equity Capital
The Company is utilizing the Commission determined cost of common equity of 9.6%.