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THE STATE OF NEW HAMPSHIRE



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June 21, 2019

Ms. Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

**RE: DW 16-619, Lakes Region Water Company and Dockham Shores Estates Water Company, Inc.
Petition to Transfer Utility Assets and Franchise for Related Approvals
Staff Recommendation to Approve Step Adjustment Filing**

Dear Ms. Howland:

On December 4, 2018, Lakes Region Water Company, Inc. ("Lakes Region" or "Company"), submitted a filing seeking authorization for a step adjustment in its billing rates for its Dockham Shores' customers located in Gilford. Lakes Region's filing supported a step adjustment of \$53,894, or 141.70 percent, over revenues accumulated from July 1, 2017 through June 30, 2018. Order No. 25,964 (November 10, 2016) authorized Lakes Region to seek a step adjustment in the rates of Dockham Shores' customers not to exceed \$6,620. Staff recommends approval of the maximum step adjustment in revenues previously contemplated by the Commission of \$6,620.

The Joint Petition between Lakes Region and Dockham Shores Estates Water Company (Dockham Shores), filed May 31, 2016, included a report prepared by Lakes Region's Field Supervisor detailing urgently needed improvements to maintain safe operation of the Dockham Shores' system. Those improvements included decommissioning the system's well meter pits and pump station since federal and state regulations defined them as "confined spaces." Additionally, pump station electrical upgrades, telemetry improvements and well meter replacements were necessary. (Exhibit A). As the Dockham Shores acquisition concluded, however, construction had not been finalized resulting in the need for a future step adjustment in the Dockham Shores system's billing rates. Therefore, the Settlement Agreement between Lakes Region, Dockham Shores, Commission Staff (Staff), and the Office of the Consumer Advocate (OCA), approved by Order Number 25,964, included a provision calling for a future step adjustment in Lakes Region's annual revenues from the Dockham Shores system, not to exceed \$6,620, to recover the completed capital improvements detailed in the Settlement Agreement. *See Settlement Agreement – Joint Petition to Transfer Utility Assets and Franchise and for*

Related Approvals, September 23, 2016, at 5: “The Settling Parties agree and recommend that the Commission authorize Lakes Region to submit a request for a step increase as set forth in the Joint Petition in an amount not to exceed \$6,620 per year in total, following the construction of the required improvements to the system on or before December 31, 2017.” (Exhibit B).

Order No. 25,964 authorized Lakes Region to submit a step adjustment filing by December 31, 2017. Due to delays, however, caused by 1) a later than expected closing of the Dockham Shores’ acquisition, 2) a longer than anticipated approval process by the Town of Gilford, and 3) the onset of winter weather, Lakes Region filed for an extension of time to file for a step adjustment until October 1, 2018. Lakes Region’s request was approved by Secretarial Letter on October 23, 2017. On October 2, 2018, the Company requested an additional 60-day extension for adequate time to reconcile the project’s cost and prepare a petition for submission to the Commission. The additional extension until December 1, 2018 was granted by Secretarial Letter issued on October 16, 2018.

On December 4, 2018, Lakes Region submitted its filing. The step adjustment requested by Lakes Region, however, was not in accordance with the terms of the previously approved Settlement Agreement. Lakes Region’s filing was based on total plant additions amounting to \$300,599 resulting in a requested increase in revenues of \$53,894, or 141.70 percent. The proposed capital improvements consisted of structures totaling \$173,677, pumping equipment totaling \$30,853, a storage tank totaling \$29,975, power generation equipment totaling \$26,170, meter equipment totaling \$7,002, wells totaling \$4,905, miscellaneous equipment totaling \$9,682, and franchise fees totaling \$18,335.

The previously approved Settlement Agreement contemplated total plant additions of \$60,000 with the major items being structures totaling \$53,400 and pumping equipment totaling \$6,600. The Company explained that the requested amount was significantly higher than anticipated in the Settlement Agreement due to the requirement of unanticipated capital improvements as detailed in an April 2018 Engineering Design and Operational Summary provided with the filing. That report states, “[t]he existing water facilities are being upgraded to current standards through the addition of a new water storage/pump house facility that will be located proximate to the existing two bedrock wells that provide water to this system.” (Exhibit C).

The Commission’s Audit Staff (“Audit Staff”) reviewed the costs associated with the Dockham Shore’s project and issued a report dated January 20, 2019. A copy of the Audit Staff’s report is attached to this correspondence. (Exhibit D). The Audit Staff’s report indicated that Lakes Region had expenditures related to the capital improvements at Dockham Shores totaling \$307,123 as of January 15, 2019. The report further cited that the total expenditure exceeds the \$60,000 limitation approved in Order No. 25,964. The Audit Staff’s review, however, confirmed that the total requested plant improvements have been placed in service and are used and useful.

The New Hampshire Department of Environmental Services (“DES”) Drinking Water and Groundwater Bureau (“DWGB”) reviewed Lakes Region’s request to upgrade the existing water system serving Dockham Shores, as submitted by the Company’s engineering consultant, Lewis Engineering. Lakes Region’s request was conditionally approved by the DWGB on May

8, 2018. The DWGB's conditions included conformity standards during construction and a sampling schedule to be followed after a Sanitary Survey inspection. Staff notes that the Sanitary Survey inspection was performed on November 20, 2018, and cited one deficiency which was corrected by Lakes Region and accepted by the DWGB on December 11, 2018.

Staff notes that Lakes Region has made great effort to improve the quality of water service at Dockham Shores. The new facilities constructed have dealt with the potential confined space violations identified previously in the acquisition docket. In addition, Lakes Region has succeeded in providing improved water quality at the Dockham Shores' system that the prior facilities could not offer. Additionally, the new facilities include automatic controls and provisions for future water treatment.

However, Lakes Region failed to keep the Commission officially informed relative to the significant design changes in the improvements that ultimately took place. *See* RSA 374:5, "[for the purpose of enabling the commission to perform its duty to keep informed as provided in RSA 374:4, every public utility, before making any addition, extension, or capital improvement to its fixed property in this state ... shall report to the commission the probable cost of such addition, extension or capital improvement whenever the probable cost thereof exceeds a reasonable amount to be prescribed by general or special order of the commission.]" The record is devoid of any filing related to a change in the scope or magnitude of the proposed changes in plant. Neither filing extension requested by the Company, furthermore, discussed these significant changes in the scope and financial impact of the project. Further, Lakes Region did not comply with Puc Rule 609.12(d), relative to Form E-22 filing requirements for significant capital improvements. Specifically, Lakes Region is required to report to the Commission when the probable cost of any addition, extension or capital improvement to its utility plant will exceed \$30,000. The cost of the capital improvements reported by the Audit Staff of \$307,123 well exceeds \$30,000 in addition to the \$60,000 amount authorized by Order No. 25,964.

Finally, Staff would like to address Lakes Region's inclusion of Franchise Costs in the Step Adjustment. Commission Order No. 25,964 at 5 indicates that the proceeds of a \$135,000 CoBank financing would be used as follows: 1) \$60,000 would acquire the Dockham Shores assets, 2) \$60,000 (approximately) would fund capital improvements, and 3) approximately \$17,000 would cover acquisition costs. Lakes Region further indicated that it would use internal funds for amounts in excess of \$135,000 financing. As stated above, the capital improvements of \$60,000 (approximately) were detailed with major items being structures totaling \$53,400 and pumping equipment totaling \$6,600. It should be noted that Franchise Costs do not fall into either of these capital improvement categories funded by the \$60,000 and should not have been included in the step adjustment request. It should also be noted that the Audit Staff did not review the Franchise Costs as submitted in this filing.

Staff recommends a step adjustment in revenues for the Dockham Shores system that is consistent as authorized in Order No. 25,954. That would result in an annual increase of \$6,620, or 17.41 percent, over the July 1, 2017 through June 30, 2018 revenues of \$38,035. An average single-family residential customer will see an increase in their water billing fees of 17.41 percent, or approximately \$27.13 per quarter. Staff further notes that the Audit Staff has determined the plant has been placed in service and is used and useful.

As the proposed step-adjustment for anticipated capital improvements was previously found reasonable by the Commission in Order No. 25,954 at 8, and the customer impact of the adjustment in revenues is moderate, Staff recommends that Commission find the step-adjustment for an annual increase of \$6,620 just and reasonable as required by RSAs 374:2, 378:5, and 378:7.

As for the additional revenues above \$6,620 sought for recovery by the Company, Staff recommends that those costs be deferred, and examined in either a future Dockham Shores or Lakes Region full rate proceeding for possible recovery by Lakes Region at that time.

The Company overall assents to the recommendation. Lakes Region, however, requested the following positions be included:

“Lake Region may not have “officially” sent the Commission updates or filed an E22 per Rule 609.12 (d), Lakes Region did on numerous occasions advise Staff of the updates. On one occasion Lakes Region presented plans, pictures and updated costs associated with the project. There was never a discussion held regarding whether such items presented should have been “officially” submitted.”

and

“With respect to the franchise costs, while not specifically identified as part of the step increase, Lakes Region did seek and receive PUC approval to acquire the franchise area along with the purchase of the water system. Such costs are standard for any acquisition and, at some point, should be reviewed and added to rate base for recovery.”

The Office of Consumer Advocate (“OCA”) did not offer an opinion regarding Staff’s recommendation or the Company’s position.

If you have any questions, please contact me for clarification.

Sincerely,



Robyn J. Descoteau
Utility Analyst, Gas & Water Division

Attachments: Exhibit A: Original Petition – Justin Benes Report
Exhibit B: Settlement Agreement, page 5
Exhibit C: Lewis Engineering Report – April 2018
Exhibit D: Audit Staff Report dated January 30, 2019

LAKE REGION WATER COMPANY INC.

420 Governor Wentworth Highway, PO Box 389
Moultonborough, NH 03254
Telephone: 603-476-2348, Fax: 603-476-2721

DOCKHAM SHORES ESTATES PROPOSED CAPITAL IMPROVEMENTS

WELL FIELD

Beginning at the well field, the source meters for each well are 20+ yrs. old. These meters are located in concrete pits and are confined spaces. This makes reading not only difficult but dangerous for any operator. Meters proposed are able to be installed above ground in the building proposed. This allows not only better monitoring, but the ability to view the meters on Telemetry. The wells run currently on a float system in the Atmospheric Storage tank. Unfortunately the signal wire that is DIRECTLY buried in the ground has long outlived its life expectancy. Moving to a wireless signal system (Devar) enables the well cycles to accurately run without the use of a buried cable.

PUMP STATION

The existing pump station, though semi-functional, is in EXTREME need of improvement. It is in a "confined space", OSHA requirements are similar to NHDES and for good reason. A bulkhead can be easily installed to comply with requirements. The existing station is also very wet due to ground water. All electrical panels and controls should be moved upstairs to the proposed building. This prevents premature failure of electronics due to dampness and corrosion. The proposed panel will also be able to run both well pumps, boosters, monitor tank height, pressure, and outbound flow and send alarms to operators upon ANY system problems.

IN CLOSING

Dockham Shores system is outdated in many ways and needs upgrading- it has functioned for 40+ years. Customers will have a more reliable, worry free infrastructure with these proposed improvements. This translates to quicker response to problems, less down time to customers and overall a better view of the system parameters.

IMPROVEMENTS WILL ADDRESS

- Confined space hazard in well meter pits and pump station
- Inadequate components: buried signal wire to wells from pump station (900' plus of 40 yr old wire), well meters way past expected life (inaccurate source readings) and existing well panel near wells has rodents living inside it.
- Telemetry makes monitoring the system easier.
- Badger meters will create accurate readings.
- Electrical panel will be moved to a dry location.

Justin Benes
Field Supervisor

**DW 16-619 Lakes Region Water Co. Inc. & Dockham Shores Estates Water Co. Inc.
Joint Petition to Transfer Utility Assets and Franchise and Related Approvals
Settlement Agreement**

conditions as are not inconsistent therewith. Lakes Region should further be authorized to grant a security interest in any or all assets acquired from Dockham Shores Estates in furtherance of its financing proposal, as well as to update its existing approved mortgage to include the newly acquired Dockham Shores Estates assets. The Settling parties recommend the Commission grant Lakes Region's request for financing approval pursuant to RSA 369:1 & 2.

E. Tariff Revisions

The Settling Parties agree and recommend that the Commission approve Lakes Region's request to modify Dockham Shores' existing tariff to reflect Lakes Region's existing, approved terms and conditions, pursuant to RSA 378:3. This will enable Lakes Region to operate all of its water systems using consistent terms and conditions.

F. Step Increase

The Settling Parties agree and recommend that the Commission authorize Lakes Region to submit a request for a step increase as set forth in the Joint Petition in an amount not to exceed \$6,620 per year in total, following the construction of the required improvements to the system on or before December 31, 2017. Staff shall review Lakes Region's request for a step increase and make a recommendation to the Commission consistent with applicable rate making principles, Commission regulations and the provisions of RSA 378.

V. CONDITIONS

This Agreement is expressly conditioned upon the Commission's acceptance of all of its provisions, without change or condition, and if the Commission does not accept

ENGINEERING DESIGN & OPERATIONAL SUMMARY
DOCKHAM SHORES WATER IMPROVEMENTS

PWS # 0882190
GILFORD, NEW HAMPSHIRE
April 2018

The Dockham Shores PWS #0882190 is located on the northeasterly side of Route 11B in Gilford, NH. Dockham Shores is owned by Lakes Region Water Company of Moultonborough. The existing water facilities are being upgraded to current standards through the addition of a new water storage / pump house facility that will be located proximate to the existing two bedrock wells that provide water to this system.

This document describes the engineering and operation of water improvements at this PWS. The new Pump House facilities include a reinforced concrete 15,000-gallon water storage tank, Pump House building, booster pumps, automatic controls and related equipment. There is provision for water treatment, and for a standby generator.

The design of the improvements will operate automatically, with Wells operation based on tank levels. Booster pumps will be VFD controlled. There are two pre-charged pressure tanks that allow boosters to shut off during low flow conditions. Water use, based on NHPUC records shows average use within this 63 home community to be 6,900+/- gallons per day. A peak day calculated at 2.0 times = 13,800 gallons. The reported well pumping capacity from 2 onsite wells is 50 gpm and 60 gpm respectively. Wells 1 & 2 are located proximate to the new Pump House. Atmospheric Tank level will be used to start and stop the respective well pumps. A submersible level transducer will provide water level readings.

New Pump House - The water improvement project will include the construction of a new water pump house building on the site. A pre-cast reinforced concrete water storage tank will act as the building's foundation. The building is 11'4" W x 27'4" L x 8'0" H ceiling height. This is an insulated wood framed structure that uses manufactured roof trusses (80 psf snow load and 20 psf ceiling load), a painted plywood interior, Zip exterior sheathing with vinyl siding, and an insulated metal

access door. A Zip Roofing System, 25-year fiberglass / asphalt shingles will also be used. A Bilco, or equal, roof access hatch will allow access to the line-shaft turbine booster pumps. The reinforced concrete water storage tank has 8' floor to ceiling height, with an outside screened vent / overflow, and two access hatches located inside the Pump House. The tank acts at the frost wall foundation and floor slab. A floor drain will be located inside the station. The floor drain will have a rodent screen. A flood alarm will be part of the station.

System Connection and Water Supplies - The pump house will be connected into the existing 3" diameter water distribution system.

The water supply wells will each have individual 1" meters, check valves, pressure relief valves, sampling taps, 2.5" - 100 psi liquid filled pressure gauges and flushing valves to daylight. Provision has been made for future water treatment, if needed. An existing UV unit may be transferred from the existing pump house to be used in the new pump house.

Master Water Meter and Controls - The Pump House uses a 2" Badger M2000 master water meter measuring in gallons, a submersible tank level pressure transducer to supply water level data to start and stop well pumps. Smart Drives will be used to operate the 5 h.p. VFD water booster pumps, using input from a 0-100 psi WIKA discharge pressure transducer and the 2" master water meter. There will be 4.5" liquid filled pressure gauge (0 - 100 psi), twin 119-gallon pre-charged pressure tanks, sampling taps, and provision for emergency chlorination. There is also a high-level alarm, a low water warning and an emergency low water shut off for the booster pumps that will be connected into the GS-400 automatic monitoring / alarm system.

Electrical Service, VFD Booster Pumps, Heat, Lights, Ventilation - The station will use a new single phase 200 A/240-120 VAC, 1- phase electrical service. The Smart Drives area VFD's that create 3 phase power for the Booster Pumps. Well pumps will remain across the line start. Heat is provided from 2 - 3 KW electric heaters. There are 3 - 48" long, water resistant fluorescent lights, an automatic

ventilation fan, with motor operated air inlet vent that operates based on temperature rise.

Additional details are found on the Plan Set, and Data Sheets are included within the balance of this document.

Pump House Automatic Operation - The standard operation will be as follows, starting from the atmospheric tank being full, and the Pump House at 70-psi full system discharge pressure, with booster pumps "off":

1. As water is used in the system, the first water is supplied from the pre-charged pressure tanks. As pressure drops to 55 psi, the "lead" VFD booster pump starts and runs. As demand is met and pressure is restored with flow below 3 gpm for more than 60 seconds, this pump shuts off. The "lag" booster pump will start and run as "lead" during the next cycle. If water flow from the lead pump exceeds 60 gpm, the lag booster will start and run. If flow exceeds 80 gpm for 1 minute, a high flow alarm is sent. If the discharge pressure with one booster running drops to 50 psi, the lag booster will start and run until pressure is restored. If pressure drops to 35 psi, or is above 75 psi, either condition will activate an alarm. Alarm and booster starting and stopping pressures are operator adjustable on the Smart Drive. The boosters will have 2 minute minimum run times programmed. Pump speed will vary to maintain the set discharge pressure which will be 65+/- psi, with a 5 psi bump-up just before shutting off. The booster pumps are line-shaft submersible turbine pumps mounted inside the pump house. A roof hatch allows easy removal for maintenance.
2. As water is used in the system and the atmospheric tank drops from Full at 92" to 86", a well pump will start and run until the Full level is reached. If the level goes to 94" a highwater alarm will be activated. If the water level continues to drop to 80" the lag well pump will start and run until the tank is refilled. If the tank drops to 55" there will be a low water warning alarm activated. If the water continues to drop to 40", there is a second alarm and the booster pumps

will be automatically shut down to prevent pump damage. Alarm levels, and well starting and stopping level, are operator adjustable.

3. A GS-400, cell phone based, automated monitoring and alarm system will be included in the station. This system may be accessed through a secure web portal and will send alarm and status signals to responsible party's smart phone.

Following construction, commissioning, and start- up with NH-DWGB approval, as-Built Drawings and an IOM manual will be provided.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: January 30, 2019
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: Lakes Region Water Company, Inc.
DW 16-619 Step Adjustment
FINAL Audit Report

TO: Steve Frink, Director, Gas/Water Division
Jayson Laflamme, Assistant Director, Gas/Water Division
Robyn Descoteau, Utility Analyst III, Gas/Water Division

Introduction

The NHPUC Audit Staff (Audit) has conducted an audit of the Lakes Region Water Company, Inc. (Company, LRWC) additions to plant for specific improvements at the Dockham Shores water system in Gilford, NH. Lakes Region was authorized to acquire the assets and utility franchise of Dockham per Order 25,964 in docket DW 16-619.

Also within the Order was authorization for a step increase to install telemetry, electrical upgrades, and pump station improvements at the Dockham system. The settlement agreement indicated that the improvements would cost approximately \$60,000 and, once completed and in service, the Company would petition for implementation of the related revenue requirement for the step adjustment, not to exceed \$6,620.

The Company was to file the actual costs not later than December 31, 2017. On October 2, 2017, the Company submitted a request for a nine-month extension, which was granted. A second extension approved the filing deadline to December 1, 2018. On December 3, 2018 the Company provided the details of the improvements, totaling \$300,599. SPS-1 of the filing reflected a total of \$300,559, which was not the sum of the figures on that schedule. On SPS-4 of the filing was \$30,853 associated with account 311, Pumping Equipment, which should have been included on SPS-1.

Original Proposal vs. December 3, 2018 Filing

Audit compared the Exhibit D, Bates page 42 of the Company's initial filing in DW16-619, provided to the Commission on May 31, 2016, to the reported Actual costs included in the December 3, 2018 Filing:

	<u>Initial 5/2016</u>	<u>12/3/2018</u>	<u>1/15/2019</u>
<u>Source/Pumping</u>			
302-Franchises		\$ 18,335	\$ 19,707
304.02-Structures/Improvements	\$ 53,400	\$ 173,677	\$ 173,380
307-Wells		\$ 4,905	\$ 5,665
310-Power Generating Equipment		\$ 26,170	\$ 29,617
311-Pumping Equipment	\$ 6,600	\$ 30,853	\$ 31,449
339-Miscellaneous Equipment		\$ 9,682	\$ 10,328
<u>Transmission and Distribution</u>			
330-Storage Tank		\$ 29,975	\$ 29,975
334-Meters		\$ 7,002	\$ 7,002
Total Improvements	\$ 60,000	\$ 300,599	\$ 307,123

The highlighted \$60,000 was specifically included within the Commission Order authorizing the step increase.

Inclusion of the Franchise costs in the December 3, 2018 filing, then the updated copy given to Audit while onsite January 15, 2019, was not contemplated for inclusion in the Step adjustment.

The letter accompanying the December 3, 2018 filing indicates that the \$300,599 is “significantly higher than anticipated in the Settlement Agreement due to significant[ly] more capital improvements required. ...see ...Engineering Design and Operational Summary dated April 2018 for support and justification.” The Engineering Design and Operational Summary from Lewis Engineering included:

- 15,000 gallon reinforced concrete storage tank (pump house foundation)
- Automatic operation of wells based on tank levels
- Booster pumps 5 hp VFD controlled
- Two pre-charged pressure tanks that allow boosters to shut off during low flow
- Atmospheric tank level will start and stop respective well pumps
- Pump house has 8’ ceiling, 25-year roof, floor drain, rodent screen, flood alarm, among other items.
- Water supply wells have 1” meters check valves, pressure relief valves, sampling taps, liquid filled gauges, flushing valves, provision for future water treatment if necessary. Existing UV unit may be transferred to the new pump house.
- Pump house uses a 2” Badger M2000 master meter, GS-400 automatic monitoring alarm system.
- Station will use a new single phase 200 A/240-120 VAC 1-phase electrical service, Smart Drives VFD create 3-phase power for the booster pumps.
- Heat is electric, 2 -3 KW, lighting is 3-48” long water resistant fluorescent lights, ventilation fan with motor operated air vent that operates based on temperature.

Lewis Engineering, PLLC submitted the Engineering Design and Operational Summary, along with a formal request for authorization for community water system upgrades to the Dockham Shores system to the NH Department of Environmental Services (NHDES). On May 8, 2018, the NHDES Drinking Water and Groundwater Bureau provided conditional approval for the upgrade. The conditions were:

1. The system must conform to Env-DW 405 Design Standards for Small Community Water Systems.
2. Existing pump station shall be removed, underground vault removed or filled with clean fill...
3. Each well source entering the new pump station shall have a discrete source sampling tap, located before any storage tank or check valve, and a discrete meter. Meters shall record 24-hour maximum use and be read at least weekly.
4. Meters must be AWWA certified and installed according to manufacturer's requirements.
5. Inform NHDES when construction begins and at least a week before cut over so a sanitary survey can be conducted.
6. Following the system inspection, sampling shall be performed per the Master Sampling schedule posted at www.des.nh.gov OneStop.
7. If the existing particulate and UV treatment systems are to be transferred to the new station, must inform NHDES prior to scheduling the initial sanitary survey.
8. Mid and post treatment sampling taps shall be installed after each treatment process unit as well as post blending and storage, for system sampling and monitoring.
9. O&M manuals and final record drawings shall be onsite, and shall conform to Env-DW405.33 System Construction; electronic pdf shall be sent to NHDES within 90 days following the sanitary survey.
10. Per Env-DW 405.33(g) all new equipment and distribution main shall be disinfected and flushed in accordance with AWWA standards.

Lewis Engineering photographs of the completed pump house and related tank/assets were provided to Audit.

Audit understands that the Company communicated with the Commission (informally) regarding the delays and issues which were encountered while attempting to repair the pump house at the Dockham Shores system. However, the language of the Order indicates that, for step adjustment purposes, \$60,000 of the actual spending can be included. Audit indicated to the Company that the excess spending, while likely necessary, should be contemplated as part of a full rate case. Due to the existing pump house conditions, Lewis Engineering determined that an above ground pump house and related communications equipment, along with a back-up generator, was necessary.

General Ledger Details

Actual reported costs as of 12/3/2018 and 1/15/2019 were posted to Construction Work in Process, rather than the appropriate Plant in Service account. The Company was asked why the assets had not been moved and the response was that they preferred to wait until the conclusion of the audit. On January 17, 2019, journal entries to move the assets from CWIP to

the appropriate plant in service account, effective 12/31/2018 were provided to Audit to review. Specifically:

To adjust the construction costs of the new pump house from CWIP to the plant in service accounts:

Account 304.02 Structures and Improvements	\$160,879.59	
Account 307 Wells	\$ 5,655.00	
Account 310 Power Generating Equipment	\$ 29,616.97	
Account 311 Pumping Equipment	\$ 31,449.15	
Account 339.02 Miscellaneous Equipment	\$ 10,328.15	
Account 330 Tank	\$ 29,975.00	
Account 334 Meters	\$ 7,002.41	
Account 105 Construction Work in Process		\$274,906.27

The entry below was made to account for charges from LRW Services relating to the cost of removing the old pump station. The cost had been debited to CWIP:

Account 108 Accumulated Depreciation	\$12,500	
Account 105 Construction Work in Process		\$12,500

To retire the previous pump house and related equipment, the following journal entry was provided to Audit for effect 12/31/2018:

Account 108 Accumulated Depreciation	\$87,613.91	
Account 304.02 Structures		\$ 7,831.00
Account 310 Power Generating Equipment		\$ 4,718.00
Account 311 Pumping Equipment		\$38,732.91
Account 330 Tank		\$32,208.00
Account 334 Meters		\$ 4,124.00

Audit verified the retirement total of the Structures, Power Generating Equipment (net of an earlier retirement of \$3,112 in 2/2018), Tank, and Meters to the year-end 2017 PUC Annual Report. The Pumping Equipment total of \$38,732.91 did not agree with the Annual Report figure of \$26,317. The figure did however, agree with the information maintained by the Dockham Shores accountant, which had been converted to the Fixed Asset Pro system. Refer to the Depreciation section of this report.

Structures Account 304.02 Original Estimate \$53,400, Actual Spending \$173,379.59

The Settlement Agreement reflected account 304 assets to be:

Panel, Devar & GS400	\$15,300
Building	\$10,000
Electrical and Plumbing	\$ 9,000
Pump Station Improvements	\$13,000
One 2" Badger Meter	\$ 1,600
Exhaust Fan and Transducer	\$ 1,500
Plumbing	<u>\$ 3,000</u>
Total Estimate Account 304	\$53,400

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 304.02 were verified to original invoices, summarized by vendor:

A&B Lumber	\$ 70
Absolute Septic	\$ 300
ARM HVAC	\$ 3,285
Bruce Robinson Company	\$ 457
Copy Express	\$ 23
Dean M. Clark	\$ 4,400
East Coast Foundation	\$ 4,325
EJ Prescott	\$ 5,609
F.W. Webb Company	\$ 7,859
Lewis Engineering	\$ 23,325
LRW Services, Inc.	\$ 67,643 includes \$12,500 cost of removal
Northern Woods Tree Service	\$ 300
Nutter Enterprises, Inc.	\$ 4,983
Pace Representatives, Inc.	\$ 3,040
Sabourn Electric, Inc.	\$ 10,270
Sylvane	\$ 769
Town of Gilford	\$ 566
W. Caleb Johnson Builder	\$ 28,733
Water Industries, Inc.	\$ 1,154
Internal Labor	<u>\$ 6,270</u>
Total for Account 304.02	\$173,380
Less cost of removal	<u>\$ (12,500)</u>
Total to post to account 304.02	\$160,880 rounded

Audit was provided with original invoices for the following:

A&B Lumber \$70.06 for Quikrete which was used for posts around the propane tank.

Absolute Septic \$300.00 net of four invoices for onsite portable toilets.

ARM-HVAC \$3,285.00 for the purchase and installation of one 1-ton hyper-heat system (OUTDOOR Model #MUZ-FH12NA/INDOOR Model #MSZ-FH12-NA). System

includes insulated line set, condensate piping, wall bracket, slim duct, remote thermostat and control wiring between the Indoor and Outdoor Unit. AHRI reference #4934170 SEER 23.00/EER 12.90/HSPF 10.50. Note: Line voltage wiring to the outdoor unit by others.

Bruce Robinson Company \$457.12 two loads of screened sand, totaling 57.14 tons delivered on October 3 and October 4, 2018.

Copy Express \$22.50 represents photocopies made at Copy Express for the Gilford Planning Board.

Dean M. Clark \$4,400.00 is the total of three invoices for site plan reviews.

East Coast Foundation \$4,325.00 was one invoice for footing, foundation, and concrete floor of the tank at 375 Weir Road, Gilford.

EJ Prescott, Inc. \$5,609.13 was verified to seven invoices for items such as piping, link seal, nuts, washers, PVC repair, tap cap, grip rings, valve boxes, sleeves, gate wrench related rods and nuts.

F.W. Webb Company \$7,858.52 represents the total of 31 invoices. Each included several small dollar items such as PVC elbows, brass hex-head screws, adapters, hose clamps, grey CPVC, couplings, gaskets, check-valves, seal tape, strut clips, flanges, nipples, tees, shut-off valves, caution tape, etc.

Lewis Engineering, PLLC. \$23,325.00 was the total of ten invoices for work relating to technical services associated with water improvements designs at Dockham Shores, including coordination with Dean M. Clark, new storage tank, pump house design and layout, communication with NHDWGB, coordination of design plans to provide to Gilford Planning Board.

LRW Water Service, Inc. \$67,642.91 for site clearing, removal of old pump station etc. Audit verified the labor rate of \$50, large and small excavator rates, and the bulldozer rate to the 2013 adjusted affiliate agreement and rate schedule. Audit noted that \$12,500 related to cost of removal. The Company agreed to credit CWIP and debit Accumulated Depreciation.

Northern Woods Tree Service & Excavation, LLC. \$300.00 was verified to one invoice which reflected "remove trees for electric".

Nutter Enterprises, Inc. \$4,982.66 is the total of 11 invoices, from May 2018 – November 2018 for stump removal services, crushed stone, screened sand, bark mulch, etc.

Pace Representatives, Inc. \$3,040.00 represents costs associated with latches for overhead window access in the new pump house. Bilco S-50TB and RPRS3455P LH HOA.

Sabourn Electric, Inc. \$10,270.00 represents wiring for the pump station. (See also costs reflected within account 310 and 339.

Sylvane \$769.00 invoice represents costs for an Ebac CD30E Dehumidifier.

Town of Gilford \$566.00 are costs associated with site plans and notice to abutters, and the application for the building permit.

W. Caleb Johnson Builder \$28,733.00 is the sum of three invoices for installation of concrete blocks around the perimeter of the tank and construction of actual pump house. The expense was identified as block work \$1,380, materials \$11,453, and labor \$15,900.

Water Industries, Inc. \$1,153.61 was verified to three invoices for items such as piping, clamps, couplings, brass adapters, etc.

Internal Labor \$6,270.08 was verified to Logics work orders and payroll related information for three employees of Lakes Region Water Co., Inc. for specific days. The work order reflected activities associated with the pump house work at Dockham Shores.

Account 307 Wells Original Estimate \$-0-, Actual Spending \$5,655.00

Within the Settlement Agreement step adjustment, there was no reference to costs related to Wells.

The entire cost, noted to be posted from CWIP to this 307 account, was verified to two invoices from Skillings & Sons, Inc. for well deepening and drilling and reinstallation of the well pump.

Account 310 Power Generation Equipment Original Estimate \$-0-, Actual Spending \$29,616.97

Within the Settlement Agreement step adjustment, there was no reference to costs related to Power Generation Equipment.

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 310 were verified to original invoices, summarized by vendor:

Needham Electric	\$ 609
Northstar Leasing	\$24,475
Sabourn Electric	\$ 586
Rymes Propane & Oil	\$ 3,447
TDC Concrete Floors	\$ 500
Total for posting to 310	\$29,617 rounded

Needham Electric Supply \$608.94 total was verified to six invoices for items such as PVC, conduit, locknuts, couplings, etc. charged from September 2018 through October 2018.

Northstar Leasing was charged by Sabourn Electric for \$24,250.00 for the installation of a propane 120/240V 48 KW Fortress generator (to act as a backup generator at the Dockham Shores water system). A processing fee of \$225 was included in the overall cost of the generator, with payment made to Northstar. The Company indicated that the generator is being leased, and will be purchased at the end of the one-year lease period.

Sabourn Electric billed Lakes Region directly for a change order in the amount of \$585.60 due to changing the location of the generator.

Rymes Propane & Oil was paid a total of \$3,447.43 for installation and miscellaneous parts to install a 500-gallon propane tank at the generator.

TDC Concrete Floors was paid \$500 to form, pour and finish the concrete pad on which the standby generator was placed.

Account 311 Pumping Equipment Original Estimate \$6,600, Actual Spending \$31,449.15

Based on the redesign of the pump house, and the use of two vertical turbines, the estimated \$6,600 was underestimated by \$24,849.15. Refer to Account 339 for additional information.

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 311 were verified to original invoices, summarized by vendor:

Premier Pump & Supply	\$30,191
R.E. Prescott	<u>\$ 1,259</u>
Total for posting to 311	\$31,450 rounded

Premier Pump & Supply, Inc. \$30,190.65 was verified to invoices for Sulzer vertical turbine pumps, VHS motors, wire harnesses, VFD, line reactors, and transducers; valve relief, brass adapters, inserts, fittings, galvanized vent cap, nipples, bushings, stainless steel elbows, valve balls, Val-matic A/V valve, stainless motor sand fighter, galvanized piping, etc.

R.E. Prescott, Inc. \$1,258.50 was an invoice for a submersible cable.

Account 330 Tank Original Estimate \$-0-, Actual Spending \$29,975.00

Within the Settlement Agreement step adjustment, there was no reference to costs related to expenses associated with a Tank.

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 330 were verified to original invoices, summarized by vendor:

George R. Roberts	\$28,175
Testing & Coring	<u>\$ 1,800</u>
Total for posting to 330	\$29,975

George R. Roberts Co. & The Step Guys \$28,175.00 was verified to a projection and invoice for a 15,000 gallon precast concrete water tank, box culverts, riser blocks, aluminum access hatch, aluminum ladders, pocket bolts, sealant.

Testing & Coring Co., LLC \$1,800.00 was paid for four 10" cores and one 4" core in the 15,000 gallon tank.

Account 334 Meters Original Estimate \$-0-, Actual Spending \$7,002.41

Within the Settlement Agreement step adjustment, there was no reference to costs related to expenses associated with Meters.

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 334 were verified to original invoices of RE Prescott, Inc. Specifically, the total of \$7,002.41 was verified to two invoices. One was for a 1" M-2000 meter, grounding kit, companion flange and gasket and a 2" M-2000 meter with similar attachments. Both relate to well #1. The second invoice was for a 1" badger M-2000 Mag meter and bolt and gasket set for well #2.

Account 339.02 Miscellaneous Equipment Original Estimate \$-0-, Actual Spending \$10,328.15

Within the Settlement Agreement step adjustment, there was no reference to costs related to expenses associated with Miscellaneous Equipment. However, the \$10,328 is the sum of costs incurred for the telemetry which was part of the Agreement. Inclusion of the costs within the Agreement were associated with account 311. Audit understands telemetry as an automated communication process through which monitoring of water quality, pressure, leak detection, pump function, etc. is performed.

Actual expenses incurred, booked to account 105, Construction Work in Progress, to be moved to account 339.02 were verified to original invoices, summarized by vendor:

Lowe's	\$ 436
LRW Services	\$ 350
Premier Pump	\$ 439
RE Prescott	\$ 7,643
Sabourn Electric	<u>\$ 1,461</u>
Total for posting to 339.02	\$10,329 rounded

Lowe's \$435.75 is the sum of three distinct invoices for minor items such as a wall gear box, and cleaning materials

LRW Services, Inc. \$350.00 represented floor paint allocated from miscellaneous purchases at Lowes and 14 yards of hard-pack purchased from Ambrose.

Premier Pump & Supply, Inc. \$439.05 was verified to an invoice for an FL-17 flex-lite 50 gallon composite well-pressure tank.

R.E. Prescott, Inc. \$7,642.59 was verified to invoices relating to the communication, antenna, DEVAR model radio transmitter and receiver, and transducer.

Sabourn Electric \$1,460.70 was verified to an invoice for installation of a VFD and well water level panel.

Depreciation

The Company uses the Fixed Asset Pro software system for its continuing property records and related depreciation. Annually the Fixed Asset Pro calculation for all assets is exported to Microsoft Excel for documentation to support entries, which can be maintained on an ongoing basis.

According to the Small Water Booklet, Appendix B of the NHPUC, the depreciation rates for the accounts included within the initial and updated filings should be:

- Account 302 Franchise – not included in Appendix B
- Account 304 Structures and Improvements - 40 years at 2.5%
- Account 307 Wells – 30 years at 3.3%
- Account 310 Power Generation Equipment – not included in Appendix B
- Account 311 Pumping Equipment – 10 years at 10%
- Account 330 Tanks – 45 years at 2.2%
- Account 334 Meters with 10% salvage – 20 years 4.5%
- Account 339-not included in Appendix B

Audit questioned the Company regarding the 14.29% used for account 339, Miscellaneous Equipment, and was informed that the rate represents a depreciation life of seven years for the telemetry equipment.

Meters in account 334 do not include the salvage value noted within the Small Water Booklet. As noted by the Company, the Commission Staff agreed to the Company use of the straight twenty-year life, and resulting 5% depreciation rate.

Lastly, the Company understands that the Small Water Booklet allows tanks to be depreciated over 45 years, but has chosen to spread the depreciation expense over 50 years at a smaller annual expense.

Audit reviewed the May 2016 filing, Exhibit D, Schedule SPS-7 for the initially filed expectation of costs and related depreciation for the improvements at the Dockham Shores system.

Annual and Half Year Depreciation per Initial Filing 5/31/2016

	<u>Cost</u>	<u>Annual Dep. Rate</u>	<u>Annual Expense</u>	<u>1/2 year Accum. Dep.</u>
Source/Pumping				
304 Structures and Improvements	\$ 34,300	2.50%	\$ 857.50	\$ 428.75
311 Pumping Equipment	\$ 4,400	10.00%	\$ 440.00	\$ 220.00
Transmission and Distribution				
304 Bulkhead/Building	\$ 19,100	2.50%	\$ 477.50	\$ 238.75
311 Pumping Equipment	\$ 2,200	10.00%	\$ 220.00	\$ 110.00
	<u>\$ 60,000</u>		<u>\$ 1,995</u>	

Audit reviewed the reported actual costs and related depreciation expenses, as filed with the Commission on December 3, 2018. The cost basis increased from the Commission approved \$60,000 to \$300,599. The related annual depreciation expense increased from \$1,995 to \$13,456.

Annual and Half Year Depreciation per FILED SPS 12/3/2018

	<u>Cost</u>	<u>Annual Dep. Rate</u>	<u>Annual Expense</u>	<u>2018 Accum. Dep.</u>
Source/Pumping				
302 Franchises	\$ 18,335	5.00%	\$ 916.75	\$ 458.38
304 Structures and Improvements	\$ 173,677	2.50%	\$ 4,341.93	\$ 2,170.96
307 Wells	\$ 4,905	3.30%	\$ 161.87	\$ 80.93
310 Power Generation Equipment	\$ 26,170	10.00%	\$ 2,617.00	\$ 1,308.50
311 Pumping Equipment	\$ 30,853	10.00%	\$ 3,085.30	\$ 1,542.65
339 Miscellaneous Equipment	\$ 9,682	14.29%	\$ 1,383.56	\$ 691.78
Transmission and Distribution				
330 Storage Tank	\$ 29,975	2.00%	\$ 599.50	\$ 299.75
334 Meters	\$ 7,002	5.00%	\$ 350.10	\$ 175.05
	<u>\$ 300,599</u>		<u>\$ 13,456</u>	

While onsite at Lakes Region, on 1/15/2019, the above grid was updated to reflect additional costs which changed the basis to \$307,113 and the related annual depreciation expense to \$14,039.

Annual and Half Year Depreciation per SPS 1/15/2019

	<u>Cost</u>	<u>Annual Dep. Rate</u>	<u>Annual Expense</u>	<u>2018 Accum. Dep.</u>
Source/Pumping				
302 Franchises	\$ 19,707	5.00%	\$ 985.35	\$ 492.68
304 Structures and Improvements	\$ 173,380	2.50%	\$ 4,334.50	\$ 2,167.25
307 Wells	\$ 5,655	3.30%	\$ 186.62	\$ 93.31
310 Power Generation Equipment	\$ 29,617	10.00%	\$ 2,961.70	\$ 1,480.85
311 Pumping Equipment	\$ 31,449	10.00%	\$ 3,144.90	\$ 1,572.45
339 Miscellaneous Equipment	\$ 10,328	14.29%	\$ 1,475.87	\$ 737.94
Transmission and Distribution				
330 Storage Tank	\$ 29,975	2.00%	\$ 599.50	\$ 299.75
334 Meters	\$ 7,002	5.00%	\$ 350.10	\$ 175.05
	<u>\$ 307,113</u>		<u>\$ 14,039</u>	

The external accountant, Stephen P. St. Cyr & Associates, calculated the depreciation expense for the step adjustment, including the Franchise costs, which were not contemplated to be included within the step.

The above grid also does not reflect the reduction of the Structures and Improvements by \$12,500 to account for the cost of removal. Audit communicated with the Company regarding the reduction of the depreciation expense (relating to the Structures) from \$4,334.50 to \$4,022.00, or \$2,011 ½ year depreciation expense and related accumulated depreciation for 2018.

For calculation of the revenue requirement, Audit understands that the outlined \$60,000 and related depreciation expense of \$1,995 should remain. Inclusion of the additional asset costs and related depreciation expenses should be contemplated within the context of the Company's next full rate case.

Retirements

Within the original May 2016 filing, the Company did not reflect any retirements that would be associated with the step adjustment additions to plant.

On the December 3, 2018 filing, the Company noted \$87,614 as plant retirements. Refer to the General Ledger portion of this report which identified the specific plant assets which were retired through the year-end journal entry.

Overall Summary of the Dockham Shores Step Adjustment

Audit noted the specific language contained within the Settlement Agreement and the resulting Order which approved the Agreement. The Order authorized upgrades to the Dockham Shores system *“including the installation of telemetry, electrical upgrades, and pump station improvements...under the step adjustment provision, Lakes Region can seek up to \$6,620 in new revenue”*. (underline added)

As filed on December 3, 2018, the Company proposed a step adjustment of \$53,894 in new revenue, based on \$300,599 plant additions. The \$300,599 includes cost of removal \$12,500, and is based on asset additions which were not contemplated at the time the Order authorized the step.

Specifically included in addition to the \$60,000 were franchise costs, changes to the pump house design, and inclusion of a back-up generator. The Franchise costs were never considered part of the step adjustment and were not reviewed by NH PUC Audit during this audit.

All of the other asset additions made to the Dockham Shores system were reviewed as noted within the text of this report. However, based on the Commission Order approving the step, and the related revenue requirement of \$6,620, Audit recommended to the Company that it consider petitioning, through a rate case, to recover the additional funds spent on the Dockham Shores system.

Company Comment

On January 30, 2019, the Company Responded to the DRAFT Audit Report which had been issued on January 22, 2019. Specifically, the Company noted:

- The Company acknowledges the language in the Settlement Agreement and the resulting PUC order. The Company reminds the Audit Staff that such costs and related revenue were based on the best available information at the time and the best estimate of the costs. The Company hired Lewis Engineering, PLLC (“Lewis”) to assess the condition of the plant and to design and engineer the project for what needed to be done. Lewis submitted plans to DES for review and approval, and subsequently got DES approval. The Company kept the PUC Staff informed of the changes to the project. The Company should be given the opportunity to recover such costs as part of the step increase as originally contemplated. **Audit Response:** Audit appreciates the Company comment, and reiterates the language of the Order and the specificity with which it was written.
- With respect to the \$12,500 cost of removal, the Company has since charged Accumulated Depreciation (instead of adding the costs to the project). The cost of removal has no impact on the revenue requirement. **Audit Response:** Audit agrees that the adjusting entry was booked as noted, and also agrees that the revenue requirement impact is zero. The Company is reminded that the Uniform System of Accounts requires the posting of the cost of removal in the manner discussed within this report.

- With respect to the franchise costs, while not specifically identified as part of the step increase, the Company did seek and receive PUC approval to acquire the franchise area along with the purchase of the water system. Such costs are standard for any acquisition and should be allowed to be recovered as part of the step adjustment. **Audit Response:** Audit again reminds the Company of the specific assets contemplated for the Step Adjustment.
- The Company understands that the PUC Audit Staff did review and verify all of the costs. **Audit Response:** While all costs were reviewed, the Summary above is reiterated.
- The Company disagrees with the PUC Audit Staff recommendation for the Company to “consider petitioning, through a rate case, to recover the additional funds spent on the Dockham Shores system.” A Dockham Shores rate case would place a burden on both the Company and its customers. It would be a poor use of the Company’s time, effort and funds, especially since a rate recovery mechanism, ie., the step increase, is available to the Company. It would be terribly costly for the Dockham Shores customers, especially on top of the proposed rate increase. **Audit Response:** While onsite, Audit discussed the possibility of a Lakes Region Water Company rate case with the Manager and Owner. Both acknowledged the significant Dockham Shores system upgrade cost vs. that which was written into the Order, and both indicated an understanding of the language in the Order. Timing of any Lakes Region rate case, and any contemplation of rate consolidation, should be carefully considered by the Company.

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