

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Lakes Region Water Company, Inc. – Dockham Shores Division

Docket No. DW 19-177
Request for Change in Rates

SETTLEMENT AGREEMENT

I. INTRODUCTION

This Settlement Agreement (Agreement) is entered into by and among Lakes Region Water Company, Inc. (Lakes Region or the Company), and the Staff of the New Hampshire Public Utilities Commission (Staff) (collectively, the Settling Parties), with the intent of resolving the issues discussed herein. This Agreement constitutes the recommendation of the Settling Parties with respect to the Commission’s determination of a change in rates for Lakes Region’s Dockham Shores Division (Dockham Shores).

II. BACKGROUND

A. DW 16-619: Lakes Region’s Acquisition of Dockham Shores, Initial Financing, and Proposed System Improvements.

On November 10, 2016, the New Hampshire Public Utilities Commission (Commission) issued Order No. 25,964 approving a settlement agreement in Docket No. DW 16-619. *Lakes Region Water Co., Inc. and Dockham Shores Estates Water Company, Inc.*, Order No. 25,964 (November 10, 2016). In that order, the Commission approved Lakes Region’s acquisition of the assets and utility franchise of the former Dockham Shores Estates Water Company, serving 60 customers in the Town of Gilford, New Hampshire. *Id.* at 2, 8. The Commission also authorized Lakes Region to borrow up to \$135,000 to finance the purchase of the utility assets,

and to make significant improvements to the water system. *Id.* at 5, 8. The Order further authorized Lakes Region to submit a filing seeking a subsequent step adjustment in the Dockham Shores' revenue requirement in an amount not to exceed \$6,620, to recover the approximately \$60,000 in capital improvements anticipated in that settlement agreement. *Id.* at 5-6, 8-9. Lakes Region acquired Dockham Shores on July 1, 2017. Lakes Region Water Company, Inc., Petition for Permanent Rate Increase, December 23, 2019 at 1.

B. DW 16-619: Lakes Region's Proposed Step Increase for Dockham Shores.

On December 4, 2018, Lakes Region filed a petition with the Commission for a Step Increase in revenues of \$53,894, or 141.70 percent, from Dockham Shores' customers. *Lakes Region Water Company, Inc. and Dockham Shores Estates Water Company, Inc.*, Order No. 26,272 at 1-2 (July 11, 2019). "The request was based on \$300,599 of total plant additions ... [that] included state and federally mandated structural improvements to Dockham Shores' well meter pits and pump station." *Id.* at 2. The Company stated that unanticipated capital improvements required a greater investment in the system. *Id.* The Commission's Audit Staff reviewed the associated costs, and confirmed that the total requested plant improvements have been placed in service and are used and useful. *Id.* at 3.

Order No. 26,272 approved an annual step increase in revenues from Dockham Shores' customers of \$6,620, or 17.41 percent, pursuant to the previously approved maximum amount of the step adjustment in Order No, 25,964. The Commission further stated that:

the resulting rates are just and reasonable, as required by RSA 374:2, RSA 378:5, and RSA 378:7. The step adjustment will result in an approximate increase of \$27.13 per quarter for an average residential Dockham Shores customer.

We note that the Company is not precluded from filing for additional recovery, including acquisition costs, in either a future Dockham Shores or Lakes Region rate case. That recovery, however, is subject to Commission examination and approval, and, furthermore, is not guaranteed. *Id.* at 4.

C. DW 19-135: Lakes Region’s Proposed Financing Inclusive of Dockham Shores Improvements.

On August 16, 2019, Lakes Region submitted a petition for approval of \$633,000 in long-term debt from CoBank, ACB (CoBank) to finance improvements at its various systems. Lakes Region Water Company, Inc., Petition for Approval of Long Term Financing, August 16, 2019 (Docket No. DW 19-135). Part of the financing included reimbursement to Lakes Region for \$215,000 the Company spent on the pump station replacement at Dockham Shores *Id.* at 3. On August 14, 2020, Staff filed a letter with the Commission recommending approval of Lakes Region’s proposed financing of \$633,000 at an interest rate up to 6.00 percent.¹ Lakes Region’s request for financing approval remains in pendency before the Commission.

In support of Staff’s recommendation, Staff incorporated a report dated July 14, 2020 by its engineering consultant, Douglas W. Brogan, P.E., included in the Agreement as Attachment A. Commission Staff, Recommendation, August 26, 2020 at 9-15. With regard to the Dockham Shores pump station project, Mr. Brogan stated:

In at least the nine years prior to completion of the new facilities (eight of them prior to Lakes Region ownership), customers of the system suffered through various system outages, water shortages, boil water orders, equipment failures and other problems. Those customers now have well-built facilities that are appropriate to a system of this size and that will likely eliminate such problems and provide reliable, cost-effective service for years to come. *Id.* at 13.

¹ As of April 30, 2020, CoBank indicated that it would provide Lakes Region with a 20-year fixed rate financing option at an interest rate of 4.75%. Commission Staff, Recommendation, August 26, 2020 at 173. Due to potential uncertainty in financial markets, however, Lakes Region recommended that the Commission approve Lakes Region’s proposed financing with CoBank at an interest rate not to exceed 6%. *Id.* at 175.

With regard to the total financing requested for approval by Lakes Region, Mr. Brogan concluded:

The proposed borrowing appears reasonable from the standpoint of the various system upgrade needs addressed. *Id.* at 15.

D. DW 19-177: Lakes Region's Permanent and Temporary Rate Filings for Dockham Shores.

On December 23, 2019, the Company submitted its permanent rate filing. In its filing, Lakes Region requested a permanent increase in the Dockham Shores' annual revenues of \$45,248, effective for service rendered on or after January 31, 2020. The Company proposed an increase in the quarterly fixed charge from \$48.46 (\$193.84 annually) to \$99.41 (\$397.64 annually). Lakes Region also proposed that the Dockham Shores metered rate per hundred gallons of consumption increase from \$1.232 to \$2.550. Based on the average annual consumption of Dockham Shores' customers during 2019, calculated at 41,015 gallons, the proposed rate increase would result in an annual bill increase of approximately \$744.37, from \$699.14 to \$1,443.52, or 106.47 percent, per customer. (*See* Schedule 1, Column 3)

On January 14, 2020, Lakes Region submitted a petition and schedules in support of temporary rates. The Company proposed a temporary annual revenue increase of \$35,019, effective for services rendered on or after January 31, 2020. Lakes Region proposed that the quarterly fixed charge assessed to Dockham Shores' customers, on a temporary basis, increase from \$48.46 (\$193.84 annually) to \$88.89 (\$355.56 annually). The Company also proposed that Dockham Shores' metered rate per hundred gallons of consumption increase, on a temporary basis, from \$1.232 to \$2.250. Based on the average annual consumption of Dockham Shores' customers during 2019 cited above, the proposed temporary rates would result in an annual

increase in customer bills of approximately \$579.25, or 82.85 percent, from \$699.14 to \$1,278.39. (*See* Schedule 1, Column 2)

On January 30, 2020, the Commission issued Order No. 26,329 suspending Lakes Region's proposed tariffs for Dockham Shores and scheduling a prehearing conference on March 4, 2020. The Commission further required Lakes Region to mail a copy of Order No. 26,329 to current and known prospective customers of Dockham Shores, no later than February 15, 2020. The Company was also required to publish the Commission's order in a newspaper with general circulation to the Dockham Shore's area by February 15, 2020. On February 13, 2020, Lakes Region filed affidavits of publication and mailing indicating compliance with the respective notice requirements as of February 10, 2020.

On March 4, 2020, the Commission held a prehearing conference, followed by a technical session. The only parties present were Lakes Region and Staff, and there were no requests for intervention. During the ensuing technical session, the Settling Parties discussed the proposed rate schedules, improvements, financing, as well as other matters. The Settling Parties agreed to a second technical session following Staff's review of Lakes Region's Annual Report and financial results for the year ending December 31, 2019.

On April 7, 2020, the Audit Staff issued a final report of its examination associated with this proceeding. (Attachment B). The Audit Staff's examination included a review of \$40,835 in additional capital improvements made at the Dockham Shores' system subsequent to the previous Staff audit. That report indicated no exceptions relative to the specific capital improvements reviewed.

The Settling Parties joined in a second technical session on June 2, 2019. Subsequent to that meeting, a number of further discussions ensued during which Lakes Region and Staff discussed the Company's rate proposal, which ultimately resulted in this Agreement.

III. TERMS OF AGREEMENT

A. Temporary Rates.

In accordance with RSA 378:27, the Settling Parties agree and recommend the Commission approve temporary rates effective during the pendency of this proceeding at Dockham Shores' current rates, as previously established pursuant to Commission Order No. 26,272 (July 11, 2019) in DW 16-619. Per Lakes Region's current tariff for Dockham Shores (NHPUC No. 7 - Water, First Revised Page 18), the present quarterly fixed charge is \$48.46 (\$193.84 annually) and metered rate per hundred gallons of consumption is \$1.232. The Settling Parties further agree and recommend the Commission approve that such temporary rates shall have an effective date for services rendered on and after February 10, 2020, which is the date Lakes Region provided effective notice of this proceeding to Dockham Shores' customers. The Settling Parties agree that, given the recoupment mechanism afforded under RSA 378:29, such temporary rates are reasonable and in the public interest. The Settling Parties further agree that the temporary rates provide a reasonable return to Lakes Region on its invested plant at Dockham Shores, as shown by the reports of Lakes Region filed with the Commission.

B. Permanent Rates.

The Settling Parties agree that the capital improvements made by Lakes Region at Dockham Shores are prudent, used and useful and that the Company should recover its investment in those capital improvements as well as a reasonable return on its invested plant through customer rates. The Settling Parties further agree that, in compliance with Commission

Order No. 26,340 (March 26, 2020) in DW 18-056, Lakes Region will be filing a rate case with the Commission, encompassing all of its divisions, prior to the conclusion of 2020, utilizing a 2019 test year. As part of that impending rate filing, Lakes Region will be requesting inclusion of Dockham Shores in its consolidated rate structure. As such, the Settling Parties have agreed to permanent rates in the instant proceeding that are equivalent Lakes Region's current consolidated rate. The Settling Parties further agree, however, that permanent inclusion of Dockham Shoes in Lakes Region's consolidated rate structure will be subject to further investigation within the impending rate case filed later this year.

Therefore, in accordance with RSA 378:28, the Settling Parties agree and recommend the Commission approve permanent rates for Dockham Shores in this proceeding that are equivalent with Lakes Region's current Consolidated General Service-Metered Customer rates. Per Lakes Region's current tariff for its Consolidated General Service-Metered Customers (NHPUC No. 7 - Water, First Revised Page 15) the present quarterly fixed charge is \$145.42 (\$581.70 annually) and metered rate per hundred cubic feet (ccf) of consumption is \$5.66.² Based on the average annual consumption of Dockham Shores' customers during 2019 of 54.83 ccf (41,015 gallons ÷ 7.48 gallons/cf ÷ 100), the proposed permanent rates would result in an annual increase in individual customer bills of approximately \$192.87, or 27.59 percent, from \$699.14 to \$892.01. (See Schedule 1, Column 4)

The Settling Parties agree that they are not recommending the Commission include Dockham Shores within the Company's consolidated rate group of systems within the context of the instant rate proceeding. Rather, the Settling Parties recommend that such determination

² By means of comparison with Dockham Shores' current consumption rate of \$1.232 per hundred gallons, Lakes Region's current Consolidated General Service-Metered consumption rate of \$5.66 per ccf equates to a rate measured in hundred gallons of \$0.757 ($\$5.66/\text{ccf} \div 7.4805 \text{ gal's/cf}$), for a \$0.475 per hundred gallons reduction.

should occur within the context of an evaluation of Lakes Region's overall rates during its next general rate proceeding that will commence later this year. (*See* Section III.G. below). The Settling Parties further agree that, under the terms and conditions of this Agreement, the permanent rates proposed in this proceeding are just and reasonable and provide a reasonable return on Lakes Region's plant investment at Dockham Shores in accordance with RSA 374:2, RSA 378:5, RSA 378:7, and RSA 378:28. However, the Settling Parties also agree that, as set forth in Section III.H., in the event that Dockham Shores is not included in Lakes Region's permanent, consolidated rate structure as a result of the impending general rate proceeding, a separate, just and reasonable rate will be established for Dockham Shores

C. Illustration and Comparison of Rate Impacts.

The Settling Parties agree upon Schedule 1 to illustrate and compare the impact of the permanent rates proposed in this Agreement (Column 4) with Dockham Shores' current rates (Column 1). Dockham Shores' current rates (Column 1) are also proposed by the Settling Parties to be the approved temporary rates in this proceeding (*See* Section III.A.). For purposes of comparison, Schedule 1 also illustrates the projected impact of Lakes Region's originally proposed temporary rates (Column 2) and permanent rates (Column 3). Further, Schedule 1 illustrates and compares the rate impacts under the four scenarios based on actual Dockham Shores' total consumption during test year 2018 of 2.509 million gallons (3,354 ccf), as well as total consumption during 2019 of 2.502 million gallons (3,345 ccf).

D. Temporary-Permanent Rate Recoupment.

Pursuant to RSA 378:29, in order to reconcile the difference between temporary rates and permanent rates, the Settling Parties agree and recommend the Commission authorize Lakes Region to charge Dockham Shores' customers a surcharge based on that difference. The

surcharge will be an amount equal to the difference between the revenues actually collected from Dockham Shores' customers during the recoupment period versus the revenues it would have collected had the approved permanent rate been in effect during the recoupment period. The recoupment period is the period between the established effective date for temporary rates (agreed upon by the Settling Parties as the date of customer notice - February 10, 2020) through the issuance date of the Commission's order approving permanent rates in this proceeding.

Upon the issuance of the Commission's order approving permanent rates in this proceeding, Lakes Region agrees to file, within 30 days of that order, a calculation of the temporary-permanent rate recoupment and a surcharge recommendation for the Commission's consideration. The Settling Parties agree that Staff will review Lakes Region's proposal and provide a recommendation for the Commission's consideration prior to the issuance of an order on temporary-permanent rate recoupment.

The resulting surcharge shall be reflected as a separate item on all Dockham Shores customers' bills. Upon issuance of the Commission's order approving a temporary-permanent rate recoupment, Lakes Region agrees to file, within 15 days of that order, a compliance tariff supplement including the approved surcharge relating to the total recoupment of the difference between the level of temporary rates and permanent rates, as well as the average monthly surcharge per customer.

E. Rate Case Expenses.

The Settling Parties agree and recommend the Commission approve Lakes Region's recovery of its reasonable rate case expenses for this proceeding through a surcharge to Dockham Shores' customers. Lakes Region's rate case expenses may include, but are not limited to, legal and consultant expenses, incremental administrative expenses such as copying

and delivery charges, and other such rate case related expenditures allowed under N.H. Admin. R., Puc 1906.01. Lakes Region agrees to file its final rate case expenses and proposal for surcharge recovery, pursuant to Puc 1905.02, no later than 30 days from the date of the Commission's order approving permanent rates in this proceeding. The Settling Parties agree that Staff will review Lakes Region's proposal and provide a recommendation for the Commission's consideration prior to the issuance of an order on rate case expense recovery.

The resulting surcharge shall be reflected as a separate item on all Dockham Shores customers' bills. Upon issuance of the Commission's order approving rate case expense recovery, Lakes Region agrees to file, within 15 days of that order, a compliance tariff supplement including the approved surcharge relating to the total recovery of rate case expenses, as well as the average monthly surcharge per customer.

F. Closure of Docket No. DW 19-177.

The Settling Parties agree and recommend the Commission approve closure of the instant docket after the issuance of orders approving temporary and permanent rates, a temporary-permanent revenue recoupment, and rate case expense recovery as set forth herein. (*See* Sections III.D. and E.; and Section IV.).

G. Consideration of Dockham Shores' Inclusion in Lakes Region's Consolidated Rate.

The Settling Parties agree that Staff will consider Dockham Shores' inclusion in Lakes Region's consolidated rate structure within the context of the Company's impending rate filing to be submitted prior to the conclusion of 2020, and utilizing a 2019 test year, in accordance with Commission Order No. 26,340. (*See* Section III.B.) Lakes Region agrees that it will be providing separate permanent rate schedules in its impending rate case for Dockham Shores under two possible scenarios. The first will be in consideration of Dockham Shores' potential

inclusion in Lakes Region's consolidated permanent rate structure. The second will be in consideration of Dockham Shores as a stand-alone rate entity with its own permanent rate structure.

H. Stand-alone Rate for Dockham Shores.

In the event that Dockham Shores is not incorporated into Lakes Region's consolidated rate structure at the conclusion of its impending rate proceeding (*See* Section III.G.), the Settling Parties agree that Staff will examine, in the context of the impending rate case, and strive towards agreement with all parties to that proceeding, an appropriate stand-alone revenue requirement and customer rate for Dockham Shores, on a going-forward basis subsequent to that proceeding, to be submitted for Commission consideration.

I. Acquisition and Financing Costs and Step Increase Costs.

The Settling Parties agree that Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of Dockham Shores, and the costs incurred relative to the initial step increase approved in DW 16-619 (*See* Section II.B.).

J. Audit Costs.

The Settling Parties agree that Lakes Region will not seek recovery of costs incurred relative to the Commission's audits in DW 16-619 (*See* Section II.B.) and the instant proceeding (*See* Section II.D.). *See Pittsfield Aqueduct Company, Inc.*, Order No. 25,076 at 5 (February 24, 2010) ("audit requests [are] a continuing obligation of utilities under RSA 374:18 and [are] recognized in calculating permanent rates per RSA 378:28...[a]llowing expenses associated with responding to audit requests as a surcharge for rate case expenses would, in effect, amount to a double recovery of these expenses.").

IV. CONDITIONS

This Agreement is expressly conditioned upon the Commission's approval of all its provisions, without material change or condition. This Agreement is also conditioned upon the Commission's approval of the proposed financing for the Dockham Shores system improvements in Docket No. DW 19-135 without material change or condition. If such approval is not granted, the Agreement shall be deemed to be null and void and without effect and shall not be admissible as evidence or used against any party. The Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that the temporary revenue requirement and temporary rates recommended by the Agreement are just and reasonable.

The discussions that produced this Agreement have been conducted on the understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used for any purpose.

IN WITNESS WHEREOF, the Settling Parties have caused this Agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

LAKES REGION WATER COMPANY, INC.

By Its Attorneys

NH WATER LAW

Dated: December 3, 2020

By:


Justin C. Richardson, Esq. (12148)

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Dated: 12.3.2020

By:


Christopher R. Tuomala, Esq.
Staff Attorney

MEMO REPORT

Date: July 14, 2020

From: Douglas W. Brogan, P.E.

To: Jayson Laflamme, Asst. Director, Gas & Water Division, NHPUC

Re: DW 19-135 Lakes Region Water Company
Petition for Approval of Long Term Debt

I am writing this memo report as an engineering consultant to the Gas-Water Division to summarize my findings in the above-referenced docket, which is a financing request by Lakes Region Water Company (Lakes Region or company) to fund four projects:

- 1) Completed pump station replacement in Dockham Shores water system (Gilford);
- 2) Proposed pump station replacement in Wildwood water system (Albany);
- 3) Proposed water main replacement on Paradise Shore Road in Paradise Shores water system (Moultonborough);
- 4) Proposed water main replacement on Robin Lane in Paradise Shores water system (Moultonborough).

My review is based on material filed, and discovery in, this and related dockets; participation in technical sessions with Lakes Region and Staff; a file review of Dockham Shores and Wildwood at the New Hampshire Department of Environmental Services (NHDES); and photos of the previous Dockham Shores facilities taken in 2012. My review is limited to the engineering and operational aspects of the four projects. This report should not be considered a prudence review, but only a review of reasonableness for the purposes of the proposed financing.

A. Dockham Shores

Lakes Region seeks to borrow \$215,000 to repay itself for construction of a new pump station serving the 61 customer Dockham Shores water system in Gilford. For background, Lakes Region filed with the Commission in May, 2016 to acquire the system in docket DW 16-619. The filing included a proposal to upgrade the existing well field and pump station for \$60,000. The acquisition

was approved by the Commission in Order 25,964, along with a future step increase limited to recovery of the \$60,000 upgrade, to be filed by December 31, 2017. After requesting and receiving two time extensions, the company filed instead, in December 2018, for a step increase reflecting the nearly \$275,000 cost (as subsequently adjusted by Staff audit) of an entirely new pump station, claiming to have determined the latter was necessary. The very significant cost increase; a sparsity of communication with Staff regarding the change from original 'Plan A' to new 'Plan B'; and the suggestion by Lakes Region that the new station 'contained all the bells and whistles'; created significant concern on Staff's part about the company's decisions in this regard. Partly as a result, a step increase based only on the original \$60,000 amount was approved in Order 26,272 (July 11, 2019, DW 16-619), with the remaining costs to be considered in a future rate proceeding. The instant (financing) docket was filed August 16, 2019.

The following is a summary comparing costs of the original plan to those of the final facilities as constructed:

	Original Proposal	As Constructed
Structures and Improvements, Pumping and Other Equipment, Meters	\$60,000	\$209,659
Wells		\$5,655
Storage Tank		\$29,975
Power Generation Equipment	<u> </u>	<u>\$29,617</u>
Totals	\$60,000	\$274,906

As noted above, original 'Plan A' envisioned relatively minor improvements at two locations: the well field (consisting of two wells, a meter pit, and an outdoor electrical panel) and the in-ground pump station located over 1,000 feet away. What was built instead was a new pump station at the well field location, essentially replacing all of these facilities except the wells themselves.

Five sets of discovery were posed in the instant docket, many multi-part. Together with an earlier set in DW 16-619, some 70 questions were asked, with a majority pertaining to Dockham Shores. While some predated my own involvement, I believe that discovery in regard to the project was thorough; and sincerely thank Lakes Region for its willingness to respond to the many questions. For the sake of simplicity and brevity, rather than cite to specific responses, this report is intended as a fairly high level summary based on those responses and the other material outlined earlier. A number of obvious questions arose in regard to the need for, and cost of, the new facilities. What ultimately emerged was what I believe to be adequate support for the company's chosen course of action.

In addition to the upgrades at the well field site, the original proposal envisioned addition of a bulkhead/stairway access to the existing in-ground pump station to address confined space entry

concerns, and addition of a building on top of the station to address moisture and flooding problems. This proposal proved problematic for several reasons:

- 1) The proposal would have continued to rely on the system's existing, buried steel atmospheric storage tank at the pump station location. Although the tank had been repainted internally in 2009 in hopes of extending its life, the other buried tank at the same location (a pressure tank) had already failed prior to that time. Both tanks were of the same early 1970's vintage.
- 2) The supply line bringing water the 1,000-plus feet from the wells to the station was subsequently determined to be undersized and creating a severe restriction to flow.
- 3) The existing in-ground pump station was basically located in a neighbor's landscaped front yard, with only the access hatch visible. Construction of an above-ground building on top of the station would likely have elicited concerns from the neighbor(s) and possibly the Town of Gilford Planning Board, which the company ultimately had to appear before anyway.

The description of original 'Plan A' was contained in a single page synopsis prepared by a company field supervisor prior to acquisition of the system by Lakes Region. 'Plan B' emerged after Lakes Region hired Lewis Engineering (Lewis) to review the situation and provide additional input. Lewis is a small, highly regarded firm that has been designing cost-effective pump stations for several decades. It was Lewis' determination that a number of components of the system had reached the end of their useful lives, and that full replacement of the existing pump station made the most sense.

Regarding some of the additional 'Plan B' costs in the summary table above:

- 1) Well costs were the result of deepening one of the system's two wells, necessitated by declining yields that had resulted in water bans and restrictions in the first year after the company's purchase of the system.
- 2) The existing atmospheric storage tank was replaced with a pre-cast, in-ground, concrete tank that formed the foundation of the new pump station. Effective system storage was increased as a result.
- 3) Inclusion of emergency backup power capability has become more common in community water systems as a result of long term outages from severe ice and snow storms in recent years, and is generally encouraged by NHDES. The company indicated Dockham Shores had experienced an elevated frequency of outages compared to neighboring systems. Backup power will also prevent freezing of components in the new above-ground station.

The cost of the new facilities is in line with that of similar pump stations constructed elsewhere in the state. For a larger company, such pump station replacements are routine once determined necessary. Lakes Region is a smaller company with limited in-house expertise, which ultimately resulted in its reaching out to Lewis.

A potential alternative to the new station, which the company indicated it did not investigate, is interconnection with Laconia Water Works. From the company's responses and my own review, including discussion with the Water Works superintendent, such an interconnection may have been problematic for several reasons:

- 1) The nearest Laconia water main would require a main extension of some 2,500 feet to reach Dockham Shores, at significant cost. However, the previous 900 feet along that route was only completed this past winter, so would have been additionally required at the time the Dockham Shores station was under construction. The company indicated portions of Dockham Shores contain significant ledge, which could have further impacted the cost of an extension.
- 2) The deteriorating condition of the Dockham Shores facilities at the time of system acquisition involved a time concern. The original filing in DW 16-619 noted the need for upgrades as 'urgent' and 'extreme'.
- 3) Dockham Shores is in a different municipality (Gilford) than Laconia. Investigation of Laconia's willingness to serve, time frames, requirements, rates, and fees would have required additional time and cost; as would have further engineering and other review on the company's part.

A small number of company claims regarding the need for the project were determined through the discovery process to be unsupported, but are largely peripheral to the discussion and conclusions above.

In at least the nine years prior to completion of the new facilities (eight of them prior to Lakes Region ownership), customers of the system suffered through various system outages, water shortages, boil water orders, equipment failures and other problems. Those customers now have well-built facilities that are appropriate to a system of this size and that will likely eliminate such problems and provide reliable, cost-effective service for years to come.

B. Wildwood

The company's Wildwood system in the town of Albany serves 49 customers and is of similar vintage to Dockham Shores, also dating from the 1970's. Lakes Region acquired the system in 2018

and proposes to borrow \$260,000 to replace the system's pump station with essentially a duplicate of the one built in Dockham Shores. A significant need for upgrades in Wildwood had been noted by the company in the acquisition docket (DW 17-176) but without specificity, as the company had not yet had experience operating the system.

Customers have complained both historically and recently of pressures that are sometimes marginal at best, and of significant water quality issues including discolored water, staining, taste and odor. The existing pump station is old, cramped and deteriorating and treatment is purportedly inadequate and outdated. While the company itself concedes it could probably make the system last some amount of additional time with short term fixes, it is concerned about the potential for catastrophic failure at some point.

For perspective, the company replaced the pump station in its Indian Mound system in 2015; and views Far Echo Harbor (due to water source issues), Wildwood and 175 Estates as its current highest priorities for pump station replacement, in roughly that order and with the last to be completed within the next five years. Each, like Dockham Shores, is a small, stand-alone water system. Aside from Wildwood, none are recent acquisitions, lending support to the belief the company is approaching upgrade needs objectively and not merely proposing to replace the entire pump station in every new system it acquires.

Similar to the situation in Dockham Shores, a potential alternative to some or all of the proposed upgrades in Wildwood exists via interconnection to a larger municipal system - in this case Conway Village Fire District (District). At Staff's urging, the company conducted some preliminary inquiry and analysis in this regard, which Staff supplemented with its own limited review. Those efforts indicate the following:

- 1) The estimated cost of required main extensions (by District and company) is roughly comparable to the cost of the proposed pump station replacement;
- 2) Unknowns include the willingness of NHDOT to grant a permit for the required extension along Route 16 given the specific conditions present in that area; and whether District pressures could adequately serve the upper portions of Wildwood.
- 3) Additional potential costs include that of the NHDOT permit if granted; the cost of a required meter pit including backflow protection; an initial assessment by the District of a \$1,000 connection fee per Wildwood customer; the cost of a booster station if required; the potentially significant engineering and legal costs required to determine project viability, design improvements and obtain service outside District boundaries; and incorporation of the District's own rates into the company's rate structure.

As a result, the company has indicated it does not support or recommend interconnection in this instance.

While the above arguments provide support for the proposed replacement, a final prudence review of the company's upgrade decisions in Wildwood will await a future rate proceeding.

C. Paradise Shores Water Main Replacements

The company also seeks to borrow a total of \$158,000 for two water main replacement projects in its Paradise Shores system. Based on a review of the company's filing and discovery responses, these appear reasonable.

D. Conclusion

The proposed borrowing appears reasonable from the standpoint of the various system upgrade needs addressed.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: April 7, 2020
AT (OFFICE): NHPUC

FROM: James Schuler, Examiner

SUBJECT: Dockham Shores, a Division of Lakes Region Water Company, Inc.
DW 19-177 Rate Filing, 2018 Test Year
Revised Final Audit Report

TO: Steve Frink, Director, Gas/Water Division
Jayson Laflamme, Assistant Director, Gas/Water Division
Karen Moran, Chief Auditor, Audit Division

Introduction

On October 15, 2019, Lakes Region Water Company (LRWC) and Dockham Shores (Company, DS) filed a Request for Change in Rates in docket number DW 19-177. The Company's filing seeks an increase in revenues and rates for its 61 Dockham Shores customers, along with a request to waive certain rate case filing requirements. On November 14, 2019, the Commission found the waiver not to be in the public interest and rejected the Company's request.

The deadline for LRWC to submit its rate filing was December 16, 2019. On December 13, 2019 the Company filed a request for a one-week extension to submit its rate filing. The Commission granted the extension to file by no later than December 23, 2019. The rate case was filed on December 19, 2019.

The NHPUC Audit Staff (Audit) has been requested to conduct an audit of the Dockham Shores rate filing, based on the test year ending December 31, 2018.

Allocations

In response to an audit request regarding the allocation factors, the Company provided the following:

Any administrative costs that are not related to a specific division of Lakes Region Water Company, such as expense related to the office, shop and other general administrative costs, those costs are booked to code 50 – Administration. Dockham Shores has 3% of LRWC's customers and based on customer count, Dockham Shores, division code 18, receives 3% of code

50-Administration Expense added to the direct expenses of Dockham Shores. Audit recalculated the customer count percentage and found 3% to be accurate. Audit requested the back-up to several Dockham Shores charges based on LRWC expenses (See Expense section of this report for further discussion). Dockham Shores did not receive any LRWC Balance Sheet allocations.

Audit verified the 3% calculation on the 2018 Profit and Loss Statement of LRWC that was allocated to the Dockham Shores expenses and which is reported on the filing.

Board of Directors

Per the filing 1604.01 reporting requirements, the Company states that Dockham Shores has no officers or directors because it is a division of LRWC. LRWC has three Officers and six Directors reported on the 2018 NHPUC annual report schedule A-4.

BALANCE SHEET ASSETS

Cash

For the test year ending December 31, 2018, the filing reports a zero balance for the Dockham Shores cash account #131. Per the Company, The LRWC operating account, #131.01, is used for all Dockham Shores cash transactions. In response to the questionnaire, bank reconciliations are performed monthly and cash receipts are deposited daily.

The balance sheet cash account for LRWC per the filing totals \$89,049.41 while the Bank of New Hampshire reconciliation reports \$89,037.41, an immaterial variance of \$12. Service charges totaled \$75 for the month of December, 2018 for LRWC. Bank Service Charges are allocated to Dockham Shores at 3% of the expense and accounted for in account 903.01, Bank Service Charge. Total services charges for LRWC were \$1,125 of which 3%, or \$34 was allocated to Dockham shores for 2018. Late fees are directly charged to the DS division in account 471.05, Customer Finance Charges and for the test-year totaled \$95 on the Company's general ledger and the filing's Profit and Loss Statement. These charges were for past due and disconnect notices sent to customers.

Accounts Receivable - \$7,956

Accounts Receivable, account 141 totaled \$7,956 reported on the filing PUC 1604.01 This amount agrees with the general ledger and the accounts receivable detail aging as of December 31, 2018. The amount consists of current receivables of \$8,023 and a credit to one customer of \$(68). As of December 31, 2018, there no customers past due.

Inventory – Materials and Supplies - \$0

The Company responded to the questionnaire that meters are inventoried and that the last inventory was performed on January 23, 2020. Per the Company, meters and other materials and

supplies are directly charged to the division when they are taken out of inventory and placed in service. The balance at the end of the test-year was zero. There was one meter placed in service (PIS) for \$(140) resulting in the zero balance.

Prepayments - \$2,035

The year-end balance for account 162, Prepayments Other totaled \$2,035 which consists of a bill from NH DES for \$300 and \$1,735 for the yearly GS300 Monitoring Service fee.

162 - Prepayments, Other	\$	300
162.03 - Monitoring Systems	\$	1,735
	\$	<u>2,035</u>

This represented the bill from July 2018 through June 2019 for the NH DES operating permit which runs for the twelve-month period July, 2018 through June, 2019. In June 2018, an entry was posted to account 162, Prepaid – Other in the amount of \$300 with a corresponding entry to the LRWC account 231 – Accounts Payable. Entries were posted monthly to the expense account 930.06 – Operating Permits for the six-month period July, 2018 through December, 2018 and totaled \$150. Therefore, the entry to the prepaid account should have been \$150 rather than \$300. **Audit Issue #1**

The GS400 Monitoring system costs represent service plans for all the telemetry units in the LRWC Divisions. The GS400 is a wireless, web-based generator and pump station monitoring and remote control system. When the Company purchased the telemetry unit for Dockham Shores in 2017, the vendor invoice included a prorated amount for 5 months in 2017 and the entire 2018 subscription. At the end of the year, the prorated amount for 5 months totaled \$175 (5 months at \$35 per month). The Company explains that the expense was posted to all the divisions correctly but credits to the prepaid account to clear the prepaid were not posted. Therefore, the prepaid telemetry should be \$720, not \$1,735. **Audit Issue #2**

Pre-paid Taxes - \$1,776

The filing reports pre-paid taxes in the amount of \$1,776. The total was verified to the Dockham Shores general ledger accounts 163.01-NHDRA Utility for \$589 and account 163.02-Property Taxes in the amount of \$1,187. Refer to the Property Tax portion of this report for additional information.

Miscellaneous Deferred Debits - \$38,393

Miscellaneous Deferred Debits, account 186.07 consists of organization costs totaling \$38,393 reported on filing schedule 2-1, Balance Sheet. The Company provided the supporting documentation which consisted of accounting fees from Stephen P. St. Cyr, legal fees from Upton & Hatfield LLP and a bill from the Belknap County Registry of Deeds.

186.07 - Deferred Acquisition Expense

12/31/2016 Beginning Balance

Upton & Hatfield	\$ 18,316
Stephen P. St. Cyr	\$ 4,125
2016 Union Leader	\$ 509
Remick	\$ 1,026
Unidentifiable	\$ 415
Total Beginning Balance	<u>\$ 24,391</u>
2017 CoBank	\$ 3,000
2017 Belknap County Reg. of Deeds	\$ 75
2017 Upton & Hatfield	\$ 8,259
2017 Stephen P. St. Cyr	\$ 371
2018 Stephen P. St. Cyr	\$ 2,177
Total Invoices	<u>\$ 38,273</u>
<u>186.08 - Deferred DW 15-209 Step 2</u>	<u>\$ 120</u>
Total 186 - Deferred Debits	\$ 38,393

Audit reviewed all invoices breaking the costs out by year, recalculating hourly charges and verifying the correct charge to the Dockham Shores Division. Either the entire invoice pertained to the purchase of the Dockham Shores or the purchase costs were broken out and described as Dockham Shores work. One item described as Remick pertained to a proposed acquisition that did not happen and an unidentifiable amount of \$415.

Acquisition Adjustment \$(22,571)

Audit verified the reported Utility Plant Acquisition Adjustment, noted on the Dockham Shores general ledger of \$(22,571) which agreed with the filing 1604.01(a) reporting requirements, Balance Sheet and the 2017 LRWC annual report schedule F-7, line 21, the year of the system purchase:

Account 114 Acquisition Adjustment 2017	\$(22,571)
Account 115 Accum. Amortization a/o 12/31/2018	<u>\$ 2,256</u>
Net Acquisition Adjustment	<u>\$(20,315)</u>

The Accumulated Amortization of the Utility Plant Acquisition Adjustment, account 114, totaled \$2,256 on the general ledger which agreed to the filing 1604.01(a) reporting requirements.

The general ledger detail for account 406, Amortization of Utility Plant Acquisition Adjustment shows 12-monthly entries to record the expense of \$62.67 and a year-end correcting entry to record the ½-year depreciation expense correction of \$752. Total for account 406 for the test-year was \$1,504.

BALANCE SHEET EQUITY CAPITAL and LIABILITIES

Common Stock

Per the filing 1604.01 reporting requirements, the Company states that the Dockham Shores Division has no common stock. The filing Schedule 2.2 also reflects no common stock.

Retained Earnings - \$(14,120)

Per the filing 1604.01 reporting requirements, page 18 of 20, for the year ended 12/31/2018, the Company reported retained earnings in the amount of \$(14,120) which agrees with the Company's 2018 general ledger account 217 - Retained Earnings.

Long-Term Debt, Bonds - \$129,986

Lakes Region Water Company's 2018 annual report, schedule F-35, Long Term Debt, line 7, lists the CoBank loan for Dockham Shores. Approved in Commission docket DW 16-619, the 20-year loan was for \$135,000 at 5.45%, issued on December 28, 2017 and maturing on November 20, 2037. The outstanding amount as of December 31, 2018 was \$128,986 and agrees with the Dockham Shores filing 2018 Balance Sheet and the Company's 2018 general ledger account 221.04, CoBank TO4 DS.

Interest on Long-Term Debt - \$7,824

For the test-year 2018, the overall total interest on the long-term debt reflected on the filing of \$7,835 was verified to twelve monthly journal entries on the general ledger account 427, Interest Expenses.

Short-Term Notes Payable, North Star Leasing - \$12,125

On September 17, 2018, LRWC entered into a lease agreement with the North Star Leasing Company for the leasing of a 48 KW propane generator for the Dockham Shores division with the option to purchase the generator after 13-monthly payments. The Company posted the \$24,250 cost of the generator to account 232.03, Short-Term Notes Payable - North Star Leasing, along with a \$225 processing fee and debited account 105, Construction Work in Process.

Five payments were made in 2018, debiting the Notes Payable account and crediting account 131, Cash-Operating account. The 2018 ending Notes Payable balance per the general ledger was \$12,125 which agrees with the filing's balance sheet. The Company states there was no interest component to the transaction.

Accounts Payable

Account 231 – Accounts Payable on LRWC 2018 Balance Sheet reports a beginning balance of \$126,616 and an ending balance of \$100,788, a decrease of \$25,828. The Company has stated however, that they cannot report accounts payable for Dockham Shores. The Company explained that “the accounts payable account is set up as unclassified in the software. The expense however is broken out by division”.

Customer Deposits - \$0

Per the Company’s response to an audit request dated January 31, LRWC and the Dockham Shores division do not require customer deposits.

Construction Work in Progress (CWIP) – \$(2,793)

Audit reviewed the detailed general ledger for account 105 - Construction Work in Progress. The Company explained that the negative balance was due to several 2018 invoices received in January 2019.

<u>CWIP December 2018 Summary</u>	<u>Date</u>	<u>Amount</u>
Beginning Balance	12/1/2018	\$ 271,534
Well Pump Materials	12/6/2018	2,414
Well Pump Materials	12/6/2018	1,456
Well Pump	12/6/2018	882
Motor Sand Fighter 5HP	12/6/2018	1,067
Franklin VFD	12/6/2018	1,238
Well Tank Monitoring System	12/12/2018	948
Pump Installation	12/14/2018	750
Lewis Engineering	12/17/2018	2,850
ACAD Revisions	12/17/2018	300
W/O 012	12/31/2018	1,175
Remove Old Pump Station (COR)	12/31/2018	(12,500)
Reclass DS New Pumpstation	12/31/2018	(274,906)
Ending CWIP Balance		\$ (2,793)

Utility Plant in Service - \$347,957

Plant in Service, account 101 totaled \$347,957 shown on the Company’s 2018 general ledger which agrees with the filing schedule 1604.01, Balance Sheet. The previous filing DW 16-619 and the step adjustment audit report issued on January 30, 2019 show additions of \$300,559 as of December 3, 2018, with additional invoices reviewed through January 15, 2019

making the total \$307,123. Included in that total was \$19,707 of account 302, Franchise Costs, which were not contemplated for a step adjustment.

	Balances at 12/31/2018	Audited 2018 Adds. DW 16-619	Change in Balances
302 - Franchises(moved to deferred)	\$0	\$19,707	(\$19,707)
303.02 - Land Rights	\$1,515	\$0	\$1,515
304.02 - Structures	\$160,880	\$173,380	(\$12,500)
307 - Wells	\$12,433	\$5,665	\$6,768
310 - Power Generating Equipment	\$29,617	\$29,617	\$0
311 - Pumping Equipment	\$35,565	\$31,449	\$4,116
339.02 - Miscellaneous Equipment	\$10,328	\$10,328	\$0
339.03 - Other Plant & Misc. Equipment	\$6,350	\$0	\$6,350
330 - Storage Tank	\$29,975	\$29,975	\$0
331 - T&D Mains	\$49,387	\$0	\$49,387
333 - Services	\$3,854	\$0	\$3,854
334 - Meters & Meter Installations	\$7,179	\$7,002	\$177
335 - Hydrants	\$875	\$0	\$875
	\$347,958	\$307,123	\$40,835
Franchise Total Moved to Deferred	(\$19,707)		
Adjusted Plant as of 1/15/2019	\$328,251	\$307,123	\$40,835

Only the 2018 additions of \$307,123 which were part of the step adjustment were audited in DW 16-619. Refer to the roll-forward grid below, outlining the change in Plant in Service accounts from the 2016 Dockham Shore 2016 annual report (last full-year as a stand alone company), the posting to Lakes Region's general ledger when Dockham Shores was purchased (7/1/2017), activity in 2017 and 2018.

Accounts	12/31/2016 year end balance	7/1/2017 Assets booked		debits	credits	12/31/2017 ending balance	1/1/2018			12/31/2018 ending balance
		at purchase per GL					per GL	Debits	Credits	
302	\$ 7,581						\$ -	\$ -	\$ -	\$ -
			organization costs not transferred							
303	\$ 1,515	\$ 1,515		\$ -	\$ -	\$ 1,515	\$ 1,515	\$ -	\$ -	\$ 1,515
304	\$ 7,831	\$ 7,831		\$ -	\$ -	\$ 7,831	\$ 7,831	\$ 160,880	\$ (7,831)	\$ 160,880
307	\$ 14,739	\$ 6,778				\$ 6,778	\$ 6,778	\$ 5,665	\$ -	\$ 12,443
310	\$ 7,830	\$ 7,830		\$ -	\$ (3,112)	\$ 4,718	\$ 4,718	\$ 29,617	\$ (4,718)	\$ 29,617
311	\$ 26,317	\$ 38,733				\$ 38,733	\$ 38,733	\$ 31,449	\$ (34,617)	\$ 35,565
339.02						\$ -	\$ -	\$ 10,328	\$ -	\$ 10,328
339.03		\$ 6,350				\$ 6,350	\$ 6,350	\$ -	\$ -	\$ 6,350
320	\$ 6,350		account reclassified to account 339.03							\$ -
330	\$ 32,208	\$ 32,208		\$ -	\$ -	\$ 32,208	\$ 32,208	\$ 29,975	\$ (32,208)	\$ 29,975
331	\$ 49,387	\$ 49,387		\$ -	\$ -	\$ 49,387	\$ 49,387	\$ -	\$ -	\$ 49,387
333	\$ 3,854	\$ 3,854		\$ -	\$ -	\$ 3,854	\$ 3,854	\$ -	\$ -	\$ 3,854
334	\$ 4,124	\$ 4,124		\$ 176	\$ -	\$ 4,300	\$ 4,300	\$ 7,002	\$ (4,124)	\$ 7,179
335	\$ 875	\$ 875		\$ -	\$ -	\$ 875	\$ 875	\$ -	\$ -	\$ 875
345	\$ 1,570		not transferred							\$ -
347	\$ 975		not transferred							\$ -
Total F8	\$ 165,156	\$ 159,485		\$ 176	\$ (3,112)	\$ 156,549	\$ 156,549	\$ 274,916	\$ (83,498)	\$ 347,967

Account 302 - Organization Costs of \$7,581 were not authorized for transfer from Dockham Shores when Lakes Region purchased the system.

Account 311-Pumping Equipment on the 2016 PUC annual report reflected \$26,317. At the time of the purchase, 7/1/2017, the amount booked was \$38,733. The Company states that the difference of \$12,416 is the result of when the assets were booked in 2017, \$7,961 was reclassified from account 307 – Wells and Springs to account 311 - Pumping Equipment because they were pumps for the wells. Also, *“their Accountant produced an asset schedule which is what we used to book the purchase. That schedule originally showed \$30,772 for Acct 311, giving a \$4,455 difference between their Annual Report and what we were presented.”* The 2016 year-end balance of \$26,317, plus the schedule variance of \$4,455 and the reclassified amount of \$7,961 total \$38,733.

Account 339.03 – Other Plant and Miscellaneous Equipment includes the Dockham Shores balance of \$6,350 that transferred from account 320 – Water Treatment Expense.

Account 345 – Power Operated Equipment consisting of a lawn tractor and account 347 – Computer Equipment representing a computer were not transferred because the assets were not purchased by LRW as part of the July 1, 2017 transaction.

#334 Meter and Meter Installations \$176

The previous audited balance in account 334 – Meter and Meter Installations totaled \$7,002. The account shows a December 31, 2018 journal entry to post a meter that was installed in October 2017 and not included in the 2018 step adjustment audit.

The Company provided the Continuing Property Record for the meter showing the account number location, date of installation, number identifier and cost, along with the work order showing the two employees at one hour each, the actual work performed and timesheets with the hours worked. No exceptions were noted except the delay in recording the meter.

The Company stated that the Town of Gilford owns all but one meter. The agreement between Dockham shores and the Town of Gilford was provided to Audit for review. The agreement dated September 17, 2017 states that *“the Town of Gilford sewer department serving Dockham Shores Estates gives LRWC permission to have the MXU reader ID numbers for the purpose of reading a meter only. At no time will LWRC change a meter or MXU on the Dockham Shores Estates route or install/uninstall any of the equipment.”*

2018 Retirements

The 2018 retirement total of \$87,614 was reviewed in docket DW 16-619, Step Adjustment. Below are the specific accounts showing retired assets:

Acct 304. 2 – Structures	\$ 7,831
Acct 310 – Generators	\$ 4,718
Acct 311 - Pumping Equipment	\$34,617
Acct 330 – Tanks	\$32,208
Acct 304 – Meters	<u>\$ 4,124</u>
Total 2018 Retirements	\$87,614

Audit traced the credit entries to the above accounts which were posted to the general ledger on December 31, 2018 along with debits to account 108 – Accumulated Depreciation for the same amount.

Contributions in Aid of Construction (CIAC) - \$5,200

For the test year ending 12/31/2018, the general ledger reflected a CIAC balance at the beginning of the year of \$5,200 and a net year-end balance of \$1,958. The reported Accumulated Amortization of CIAC balance at the beginning of the year was \$3,126 and the year-end balance was \$1,958. These amounts agree with the rate filing submitted by the Company and the general ledger. The following is a summary of the CIAC property by class and rate with corresponding amortization:

<u>Property Class</u>	<u>Rate</u>	<u>CIAC Amount</u>	<u>Amortization of CIAC</u>	<u>Accumulated Amortization Amount</u>	<u>CIAC Ending Balance</u>
331 - T&D Mains	2.00%	\$5,200	\$116	(\$3,242)	\$1,958

Audit traced the test year monthly amortization entries between Accumulated Amortization of CIAC, account 271 and Amortization of CIAC, account 405. Twelve monthly amortization entries of \$9.67 were verified without exception. Total amortization expense for

the test year, account 405 totaled \$116 per the filing schedule PUC 1604.01 and the Company's general ledger.

Accumulated Depreciation and Depreciation Expense - \$(6,429)

Accumulated Depreciation, account 108 totaled \$(6,429) on the Company's 2018 general ledger which agrees with the filing schedule 2.1. For the test year ending 12/31/2018, the Company's Balance Sheet also reported Accumulated Depreciation, account 108 totaling \$(6,429) as follows:

Beginning Balance	\$	77,273
2018 Expense	\$	5,620
Book Cost of Plant retired	\$	(83,498)
Reclass Removal/Disposal of Pump Station	\$	(12,500)
Year-End Depreciation Calculation Variance	\$	(16)
Adjustment To Half-Year Depreciation	\$	6,526
Year-End Adjustment to Fixed Assets	\$	166
2018 Year-End Balance	\$	(6,429)

The Company's general ledger reports Depreciation Expense, account 403 for the test-year of \$12,297. This amount represents eleven monthly journal entries of \$510.93 totaling \$5,620.23, a year-end adjustment of \$166.16, a credit adjustment of \$(15.84) and a debit adjustment of \$6,526. The Company provided the documentation for the debit adjustment calculation which consists of several journal entries to true up ½ year convention for the new pump station conversion.

The Company depreciates its assets using the straight-line depreciation method. Audit verified that most of the depreciation calculations reflect accurate rates, in accordance with the PUC's Typical Water Company Service Lives and Depreciation Rate sheet.

REVENUE - \$36,840

Total operating revenues of \$36,840 consists of metered sales and miscellaneous service revenues. Audit verified the total revenue reported on the general ledger to the 1604.01(a) filing requirement with no exceptions. The figure was also verified to the filing Statement of Income, Actual 2018 column (b). The general ledger accounts are as follows:

461.01 - Base Charge	\$10,070
461.02 - Usage Charge	\$26,350
471.01 - Disconnect/Reconnect	\$ 100
471.05 - Customer Finance Charge	\$ 95
471.02 - House Transfers	\$ 225
	<u>\$36,840</u>

Metered Sales - \$36,420

Metered Sales consist of the Base Revenue charge and the Usage or Consumption Charge. Per the Company's tariff that was in effect for 2018, the customer charge per place of consumption (Base Charge), was \$41.27 per quarter. The usage charge amount of \$26,350 represents the metered rate per 100 gallons which during the test year was \$1.0501.

Miscellaneous Service Revenues \$420

The total miscellaneous service revenue for 2018 was \$420. Activity in account 471 was for disconnect/reconnect fees, customer finance charges and house transfers. Account 471.01 – Disconnect/Reconnect are fees for shut-offs, connections, disconnections. The account shows a debit entry in April 2018 for \$100 described as a work order adjustment. Account 471.02 – House Transfers (property transfers) are \$25 fees to transfer the account to a new property owner and totaled \$225 at year-end. Account 470.06 – Customer Finance Charges are amounts for late payments, past due notices and disconnect notices. The account totaled \$95 for the test-year.

Billing Test

Audit selected ten customers from the Dockham Shores system to perform a billing review for tariff compliance. A total of ten, December 2018 year-end invoices were requested by Audit and provided by the Company.

All ten customers were billed per the tariff quarterly schedule. The base rate fee and metered rate fee were all billed according to the tariffed rates for the Dockham Shores division.

The tariff was approved by the PUC by Order 25,582 in docket # DW 12-355 dated October 14, 2013 and effective July 1, 2013. In docket DW 16-619, LRWC purchased Dockham Shores which kept its own tariff

The Company provided a blank standard bill because the actual charges were in Microsoft Word format. The bill noted that an 18% annual finance charge would be issued on all accounts over 30 days, which follows the approved tariff.

OPERATIONS AND MAINTENANCE EXPENSES - \$30,737

Total Operations and Maintenance expense reported on the general ledger for Division – 18, Dockham Shores for the test year was \$13,608. This amount agrees with the Company's 2018 Profit and Loss Statement from the filing. Total allocated LRWC Operation and Maintenance Expense, 50 – Administration added to Dockham Shores on the filing totaled \$30,737.

Several accounts had all of their expenses booked to the Administrative Division - 50 and are allocated to the different divisions based on customer count. Audit randomly selected for review direct and non-direct expenses described as step-down entries.

Operations & Maintenance Expense

<u>Account Number & Description</u>	<u>Dockham Shores Division-18 G/L Direct Charges</u>	<u>Dockham Shores Filing w/ LRWC 3% . 50-Admin. Added</u>
603 - Materials	\$ -	\$ 4
623 - Purchased Power (Electric)	4,230	4,265
630 - Maint. Supervision & Engineering	651	657
631 - Maint. of Structures & Improvements	-	81
633 - Maintenance of Pumping Equipment	1,584	1,586
642 - Wages, Treatment Expense	275	285
643.01 - Materials, Treatment Expense	530	535
643.02 - Water Testing	376	376
662.01 - Wages, Transmission & Distribution	2,791	2,811
662.02 - Contract Services	-	16
662.03 - Materials	-	461
662.04 - Equipment Repair/Rental	-	184
662.05 - Vehicle Fuel	-	763
662.06 - Vehicle Maintenance	-	316
662.07 - Vehicle Registration	-	125
662.08 - Telemetry-Telephone	1,015	1,015
662.09 - Miscellaneous	19	24
671 - Maint.of Structures & Improvements	22	22
673 - Maint. of T&D Mains	29	143
675 - Maintenance of Services	-	191
676 - Maintenance of Meters	-	10
678 - Maintenance of Miscellaneous	-	3
902.01 - Meter Reading Expense	852	857
903.01 - Wages	-	845
903.02 - Postage	-	145
903.03 - Supplies & Materials	-	37
905.01 - Misc. Customer Acct Expense	-	47
920.01 - Field Staff Other	-	4,626
920.01a - Work Order Distribution	274	(2,649)
920.02 - Administration	-	3,125
920.03 - Officer	-	2,313
923.01 - Accounting	-	476
923.02 - Computer Services	-	329
923.03 - Legal	806	1,561
924.01 - Property Insurance	-	794
924.02 - Workers Compensation	-	150
926 - Employee Pension & Benefits	-	1,390
926.02 - Pension	-	263
928 - Regulatory Commission Expense	-	452
930.01 - Bank Service Charge	-	34
930.02 - Building Maintenance	-	587
930.03 - Dig Safe Notifications	-	11
930.04 - Heat/Electric-Admin. Building	-	76
930.05 - Membership/Dues	-	43
930.06 - Opreating Permits	150	150
930.07 - Training Workshops	-	71
930.08 - Shop Supplies/Small Tools	-	324
930.09 - Telephone	-	210
930.10 - Office/Other Expense	6	471
930.11 - Reimbursements	-	28
930.12 - Other Computer Services	-	103
<u>Total General Ledger and Filing</u>	<u>\$ 13,608</u>	<u>\$ 30,737</u>

Account 623 Purchased Power - \$4,230

Audit reviewed three invoices from EVERSOURCE for monthly charges for electricity at 361 Weirs Road in Gilford, NH. The invoices totaled \$1,021 for General Service rate class. The filing amount totaled \$4,265 with 3% of \$1,168, or a \$35, 50-Administration allocation. No exceptions were noted.

Account 662.08 Telemetry, Telephone - \$1,015

Account 662.08 Telemetry, Telephone represents monthly monitoring subscriptions for the GSS400 system which monitors the generator and pump station. The expensed amount at year-end on the general ledger was \$1,015 which agrees with the filing's Profit and Loss schedule 1604.01(a) reporting requirements.

The Company explains that the expense was posted to all the divisions correctly but credited to the prepaid 50 division only. There is no expense offsetting the prepay account. (See the page 3 discussion regarding the prepaid Telemetry account).

Account 920.01 Field Staff Other - \$4,625

There no direct charges to Dockham Shores for the Administration and General Salaries account, 920.01 – Field Staff Other, which totaled \$154,186 on the LRWC profit and loss statement. The amount of \$4,625 represents the 3% allocation based on customer count. The Company provided the LRWC general ledger showing the year-to-date payroll entry total for three employees of \$154,186 which agreed with the Dockham Shores Profit and Loss statement from the filing.

Account 920.02 Administration - \$3,125

The Administration and General Salaries account, 920.02 – Administration totaled \$104,175 on the LRWC Profit and Loss statement. Audit verified that the amount of \$3,125 represents the 3% allocation based on customer count. The Company provided the LRWC general ledger for December 2018 year-to-date total of \$104,175 which agreed with the Dockham Shores Profit and Loss statement from the filing.

Account 926 Employee Pension /Benefits - \$1,653

LRWC offers health and dental insurance to their employees. Account 926, Health and Dental totaled \$46,333 on the LRWC 2018 general ledger. There was no direct cost shown on the Dockham Shores general ledger. The filing Profit and Loss statement show a 3% allocation to Dockham shores of \$1,390 for 2018. Pension Benefits, account 926.02 also shows no direct cost to Dockham Shores and the filing Profit and Loss statement allocates 3% of \$8,762 for a total of \$263 for pension benefits for 2018.

Regulatory Commission Expense - \$452

The LRWC’s general ledger, account 928 – Regulatory Commission Expense totaled \$15,056 for the year-end 2018. Dockham Shores received a 3% allocation of these expenses totaling \$452. However, the general ledger for LRWC shows expenses related to docket DW 07-105 and described as the 2012 Investigation, amortization expense. The actual Commission Assessment for LRWC totaled only \$5,076 of which Dockham Shores should have received a 3% allocation of \$152, rather than \$452. **Audit Issue #3**

Payroll

The Field Supervisor’s hours are allocated based on the hours that the two field workers worked for each division.

Payroll is booked to the division 50 accounts on a weekly basis. After the payroll is booked, the work order amounts are removed and expensed to the appropriate divisions, and the remaining balance is allocated to the 18 divisions based on customer count.

Audit selected the step down allocation entry for September and reviewed it in detail. The total step down amount (payroll amount less the field employees and field supervisor’s work order amount) was allocated to Dockham shores based on the allocation percentage for Dockham shores as of December 31, 2018. No exceptions were noted.

Fringe Benefits

The Company states that at this time, employees with Company vehicles are not taxed as a fringe benefit as the personal use is at a bare minimum.

Payroll Accrual

Account 238 – Accrued Payroll totaled \$5,625 on the LRWC general ledger and the 2018 LRWC Balance Sheet. The December 31, 2018 journal entry is shown below:

	<u>Debit</u>	<u>Credit</u>
Account 238, 50-Admin Accrued Payroll		\$5,625
Account 920.01 O&M Salaries: Field Staff Other	\$2,217	
Account 920.02 O&M Salaries: Administration	\$1,935	
Account 920.03 O&M Salaries: Officer	\$1,473	

TAXES

Taxes Other Than Income

	<u>General Ledger</u>	<u>Filing w/ 3% Admin.</u>
408.11 - Property Tax-Local	\$ 1,208	\$ 1,248
408.12 - Payroll Taxes	\$ -	\$ 825
408.12a - PR Taxes (WO Distribution)	\$ 1,854	\$ 1,016
408.13 - Utilities Tax-State	\$ -	\$ 762
	<u>\$ 3,062</u>	<u>\$ 3,851</u>

Property Taxes Local

The Dockham Shores general ledger shows account 408.11 - Property Tax Local totaling \$1,208. The property tax expense for the test year noted in the filing totaled \$1,248 which included the 3% allocation.

In addition, it was noted that none of the municipal property tax invoices included the statewide portion of the municipal tax.

Prepaid Taxes

The Dockham Shores filing 1604.01(a) reporting requirements Balance Sheet reports prepaid property tax, account 163 of \$1,776 which agrees with the general ledger.

163.01 - Prepaid Taxes, NHDRA Utility Tax	\$	589
163.02 - Prepaid Property Taxes	<u>\$</u>	<u>1,187</u>
	\$	1,776

The prepaid NHDRA Utility Tax amount of \$589 was from the 2017 purchase of the system and was not expensed in 2018. It remains in the prepaid NHDRA Tax account #163.01.

Audit Issue #4

Payroll Taxes

LRWC account 408.12 Payroll Taxes totaled \$27,503 on the general ledger for the test-year 2018. Dockham Shores received a 3% allocation totaling \$825 reported on the filing. Dockham Shores received no allocation of the accrued taxes.

Utility Property Tax Return

The State Utility Tax, account 408.13 received 3% allocation from the LRWC total of \$25,400 or \$762. Audit verified the amount on the LRWC 2018 general ledger.

Income Taxes

Per the testimony of Stephen P. St. Cyr, accumulated deferred income taxes related to the Dockham Shores book and tax depreciation differences have not been separated from LRWC at the time of the filing.

	<u>General Ledger</u>	<u>Filing w/ 3% Admin.</u>
409.01 - Federal Income Taxes	\$ -	\$ 639
409.02 - State Business Tax	\$ -	\$ 86
410.01 - Deferred Federal Income Taxes	\$ -	\$ 3,750
	<u>\$ -</u>	<u>\$ 4,474</u>

Audit reviewed the New Hampshire State Business Enterprise/Profits tax form for the test year. The return combines the Business Enterprise Tax (BET) and Business Profits tax (BPT) and the following is a breakdown of the tax calculations:

Tax calculation- BET	\$ 2,859
Tax calculation- BPT	\$ -0-
Total Tax Due for 12/31/2018:	<u>\$ 2,859</u>
Less: Prior CR Carryover	<u>\$(12,438)</u>
Total Credit	\$ (9,579)

Audit verified the 2018 LRWC Accrued NH Business Taxes to the general ledger account 235 in the amount of \$(9,588), a difference of \$9.

Deferred Income Tax, account 410.01 totaled \$125,000 on the general ledger at year-end for LRWC. Audit verified the amount on the Company's 2018 Federal Tax return.

AUDIT ISSUE #1

Prepaid Operating Permits

Background

In June 2018, an entry to was posted to account 162, Prepaid – Other in the amount of \$300. This represented the monthly NH DES operating permit which runs for the twelve-month period July, 2018 through June, 2019.

Issue

The offset was posted monthly to the expense account 930.06 – Operating Permits for the six-month period July, 2018 through December, 2018 and totaled \$150.

Recommendation

The entry to the prepaid account should have been \$150 rather than \$300.

Company Comment

Company agrees with recommendation and has corrected the prepaid to reflect \$150.

Audit Response

Audit concurs with the Company's comment.

AUDIT ISSUE #2

Prepaid Telemetry

Background

The GS400 Monitoring system costs represent service plans for all the telemetry units in the LRWC Divisions. When the Company purchased the telemetry unit for Dockham Shores in 2017, the vendor invoice for system monitoring included a prorated amount for 5 months in 2017 and the entire 2018 subscription. At the end of the year, the prorated amount for 5 months totaled \$175 (5 months at \$35 per month).

Issue

The expense was posted to all the divisions correctly but there is no expense offsetting the prepay account. The prepaid telemetry should be \$720, rather than \$1,735.

Recommendation

The Company should post an adjusting entry to the filing for 2020 reducing the prepaid Telemetry account to reflect

Company Comment

The Company agrees with recommendation and entry has been made to correct prepaid telemetry.

Audit Response

Audit concurs with the Company's comment.

AUDIT ISSUE #3

Regulatory Commission Expense

Background

The LRWC's general ledger, account 928 – Regulatory Commission Expense totaled \$15,056 at year-end 2018. Dockham Shores received a 3% allocation of these expenses totaling \$452.

Issue

The general ledger for LRWC shows expenses related to docket DW 07-105 and described as the 2012 Investigation, amortization expense which were not Commission assessment expenses or related to the Dockham Shores Division. The actual Commission Assessment for LRWC totaled only \$5,076 of which Dockham Shores should have received a 3% allocation of \$152, not \$452

Recommendation

The Company should adjust the account 928 - Regulatory Commission Expense to reflect only the assessment portion of the account.

Company Comment

The Company agrees with the recommendation and an entry was made to correct the assessment portion.

Audit Comment

Audit concurs with the Company's comment.

AUDIT ISSUE #4

Prepaid NHDRA Utility Tax

Background

Prepaid NHDRA Utility Tax totaled \$589 on the general ledger. This amount was from the 2017 purchase of the system.

Issue

It was not expensed in 2018 and remains in the prepaid NHDRA Tax account #163.01 thus overstated the prepaid accounts by \$589.

Audit Recommendation

The Company should post an adjusting entry to restate the total Prepaid Tax account 163 on the filing by removing \$589.

Company Comment

The Company agrees with the recommendation and an entry was made to expense the Prepaid NHDRA Tax account.

Audit Response

Audit concurs with the Company's comment.

LAKES REGION WATER COMPANY - DOCKHAM SHORES
SETTLEMENT SCHEDULE 1Docket No. DW 19-177
Exhibit 1

	(1)	(2)	(3)	(4)
	Dockham Shores' Current Rate/ Proposed Temporary Rate (Per Settlement)	Dockham Shores' Originally Proposed Temporary Rate (Per Co Filing)	Dockham Shores' Originally Proposed Permanent Rate (Per Co Filing)	LRWC's Current Consolidated Rate/ Proposed Permanent Rate (Per Settlement)
CUSTOMER RATE COMPARISON (2019 Consumption):				
Annual Average Charge per Dockham Shores Customer	\$ 699.14	\$ 1,278.39	\$ 1,443.52	\$ 892.01
Average Annual Increase per Dockham Shores Customer	\$ -	\$ 579.25	\$ 744.37	\$ 192.87
Quarterly Average Charge per Dockham Shores Customer	\$ 174.79	\$ 319.60	\$ 360.88	\$ 223.00
Average Quarterly Increase per Dockham Shores Customer	\$ -	\$ 144.81	\$ 186.09	\$ 48.22
Percent Increase above Current	0.00%	82.85%	106.47%	27.59%
COMPARISON OF TARIFFED RATES:				
Fixed Charge Tariffed Rate (per quarter)	\$48.46	\$88.89	\$99.41	\$145.42
Volumetric Charge Tariffed Rate:				
Per 100 Gallons Used	\$1.232	\$2.250	\$2.550	\$0.757
Per 100 Cubic Feet Used	\$9.216	\$16.831	\$19.075	\$5.660
DETAILED REVENUE/AVERAGE CUSTOMER RATE CALCULATIONS (Based on 2018 Consumption Data):				
Total Number of Customers - Dockham Shores Division	61	61	61	61
Total Annual Consumption - Dockham Shores Division:				
Gallons	2,509,240	2,509,240	2,509,240	2,509,240
Cubic Feet	335,437	335,437	335,437	335,437
Total Annual Revenues - Dockham Shores Division:	\$ 42,738	\$ 78,147	\$ 88,242	\$ 54,468
Annual Increase in Total Revenues	\$ -	\$ 35,409	\$ 45,504	\$ 11,730
Percent Increase above Current	0.00%	82.85%	106.47%	27.45%
Average Annual Consumption per Dockham Shores Customer:				
Gallons	41,135	41,135	41,135	41,135
Cubic Feet	5,499	5,499	5,499	5,499
Annual Average Charge per Dockham Shores Customer	\$ 700.62	\$ 1,281.10	\$ 1,446.58	\$ 892.92
Average Annual Increase per Dockham Shores Customer	\$ -	\$ 580.48	\$ 745.96	\$ 192.30
Quarterly Average Charge per Dockham Shores Customer	\$ 175.16	\$ 320.27	\$ 361.65	\$ 223.23
Average Quarterly Increase per Dockham Shores Customer	\$ -	\$ 145.12	\$ 186.49	\$ 48.07
Percent Increase above Current	0.00%	82.85%	106.47%	27.45%
DETAILED REVENUE/AVERAGE CUSTOMER RATE CALCULATIONS (Based on 2019 Consumption Data):				
Total Number of Customers - Dockham Shores Division	61	61	61	61
Total Annual Consumption - Dockham Shores Division:				
Gallons	2,501,900	2,501,900	2,501,900	2,501,900
Cubic Feet	334,456	334,456	334,456	334,456
Total Annual Revenues - Dockham Shores Division:	\$ 42,648	\$ 77,982	\$ 88,054	\$ 54,413
Annual Increase in Total Revenues	\$ -	\$ 35,334	\$ 45,407	\$ 11,765
Percent Increase above Current	0.00%	82.85%	106.47%	27.59%
Average Annual Consumption per Dockham Shores Customer:				
Gallons	41,015	41,015	41,015	41,015
Cubic Feet	5,483	5,483	5,483	5,483
Annual Average Charge per Dockham Shores Customer	\$ 699.14	\$ 1,278.39	\$ 1,443.52	\$ 892.01
Average Annual Increase per Dockham Shores Customer	\$ -	\$ 579.25	\$ 744.37	\$ 192.87
Quarterly Average Charge per Dockham Shores Customer	\$ 174.79	\$ 319.60	\$ 360.88	\$ 223.00
Average Quarterly Increase per Dockham Shores Customer	\$ -	\$ 144.81	\$ 186.09	\$ 48.22
Percent Increase above Current	0.00%	82.85%	106.47%	27.59%