

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

LAKES REGION WATER COMPANY, INC.

DW 08-070

PETITION FOR FINANCING AND STEP INCREASES

STIPULATION AGREEMENT

I. INTRODUCTION

This Agreement is entered into this 10th day of December, 2010, by and between Lakes Region Water Company, Inc. (LRWC) and the staff (Staff) of the New Hampshire Public Utilities Commission (Commission).

II. PROCEDURAL BACKGROUND

On May 15, 2008, LRWC filed a petition for approval to finance approximately \$779,930 to complete a number of capital projects amounting to \$1,244,430 offset by a \$300,000 contribution in aid of construction, and for approval of three step adjustments to recover its investment in those capital projects. LRWC and Staff filed a stipulation agreement on September 25, 2008 which recommended steps one and two be combined and which would, if approved, result in a revenue increase of \$112,739 or 15.62%. That agreement also called for a third step to be filed in early 2009, as well as to move LRWC's Gunstock Glen customers to LRWC's consolidated rate effective at the time the third step adjustment was approved. The first two step adjustments were approved by the Commission in Order No. 24,925 (December 30, 2008). LRWC's filing of a third step adjustment was also approved, but modified. Order No. 24,925 contains a complete procedural history of this docket.

On May 20, 2010, LRWC filed its request for approval of its third step adjustment. The step adjustment as filed includes recovery of additional plant in service of \$245,193, and conversion of LRWC's Gunstock Glen customers to its consolidated rate. If approved as filed, the third step adjustment would increase LRWC's revenues by \$37,411, or 4.88% over its 2009 net water revenue.

III. TERMS OF AGREEMENT

A. REVENUE REQUIREMENT

LRWC and Staff request the Commission authorize LRWC to increase its revenues by \$25,224, effective on a service rendered basis as of the Commission's order approving this agreement¹. These revenues are derived from a return on new capital invested in LRWC's Hidden Valley and Gunstock Glen systems, as well as depreciation expense, income taxes, and property taxes. Of the \$25,224 in new revenues, LRWC and Staff recommend \$11,833 be realized through an increase in LRWC's consolidated customer rates. See Attachment A for calculations. This increase in revenues represents an overall increase of 1.54%. LRWC and Staff recommend the remaining \$13,391 be realized by moving Gunstock Glen customers to LRWC's consolidated rates, as contemplated by the Staff and LRWC in the September 25, 2008 stipulation. Staff and LRWC agree that the plant to be placed in rate base through this third step

¹ LRWC has connected five customers at the new York Village development located within its Brake Hill Acres franchise. These customers are served by way of the new interconnection between Brake Hill Acres and LRWC's nearby Gunstock Glen franchise. The annual revenue from these five customers, or \$1,919, is deducted from the total revenues of \$27,143 LRWC would be entitled to under this third step adjustment, resulting in new net revenues of \$25,224.

adjustment is prudent and used and useful in service to customers and recommend the Commission find the same.

B. GUNSTOCK GLEN CONSOLIDATED RATES

LRWC and Staff agree that it is appropriate to apply LRWC's consolidated rate to Gunstock Glen customers, effective on a service rendered basis as of the date of the Commission's order approving this stipulation. The Gunstock Glen system was acquired in 2004 and has since remained on its own individual rate. Significant capital improvements have taken place since acquisition, including the interconnection of the Gunstock Glen system with LRWC's Brake Hill Acres system. Therefore, Staff and LRWC believe it is now appropriate to bring Gunstock Glen customers into LRWC's consolidated tariff.

C. COMBINE STEP INCREASE WITH DW 10-141 TEMPORARY RATES

LRWC has filed a petition for temporary and permanent rates which is docketed as DW 10-141. Staff and LRWC have reached an agreement to recommend temporary rates in that proceeding at a level 18.51% over LRWC's currently effective rates. Staff and LRWC agree and recommend that, in order to avoid potential customer confusion from changing customer rates twice, once in Docket No. DW 08-070 and again in Docket No. DW 10-141, that the new rates resulting from the increase in revenues from step 3 and the temporary rates in DW 10-141 be implemented simultaneously. While Staff and LRWC recommend that this change in rates be implemented on a service rendered basis effective on the date of the Commission's order, only the portion representing temporary rates should be subject to recoupment, pursuant to RSA

378:29, back to the recommended effective date of September 17, 2010. Staff and LRWC agree that there should be no recoupment associated with the new revenues resulting from implementation of step 3 in the instant docket.

D. RATE CASE EXPENSES

Staff and LRWC agree that recovery of reasonable rate case expenses incurred by LRWC in this proceeding is appropriate. Staff and LRWC agree that such expenses should only be related to the request for approval of step 3. LRWC will not seek recovery of costs relating to Staff's audit or of costs relating to routine bookkeeping or accounting associated with the assets that form the basis for step 3 rate recovery in this docket. Staff and LRWC agree that, subsequent to the Commission's order approving this agreement, LRWC will submit its request for recovery of rate case expenses to Staff, with supporting documentation, and that Staff will review that documentation. It is the intent of Staff and LRWC to submit a joint recommendation to the Commission. If Staff and LRWC are unable to reach agreement on a joint recommendation, Staff and LRWC will each file a separate recommendation to the Commission for its consideration.

IV. CONDITIONS

This agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid. This agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept this agreement in its entirety, without change or

condition, the agreement shall at LRWC's or the Staff's option, exercised within ten days of such Commission order, be deemed to be null and void and without effect and shall not constitute any part of the record in this proceeding nor be used for any other purpose.

The Commission's acceptance of this agreement shall 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 provisions set forth herein in their totality are consistent with the public interest under the circumstances. LRWC and Staff agree that all pre-filed testimony should be admitted as full exhibits for the purpose of consideration of this agreement. Agreement to admit all pre-filed testimony without challenge, however, does not constitute agreement by any party that the content of the pre-filed testimony filed by another party is accurate or what weight, if any, should be given to the views of any witness.

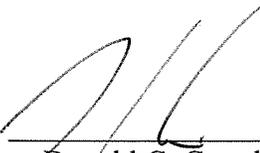
The Commission's approval of the recommendations in this agreement shall not constitute a determination or precedent with regard to any specific adjustments, but rather shall constitute only a determination that the revenue requirement and rates resulting from this agreement are consistent with the public interest in this proceeding.

The discussions that produced this agreement have been conducted on the explicit 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 in connection with any future proceeding or otherwise.

IN WITNESS WHEREOF, the parties to this agreement have caused the agreement to be
duly executed in their respective names by their fully authorized agents.

LAKES REGION WATER COMPANY,
INC.

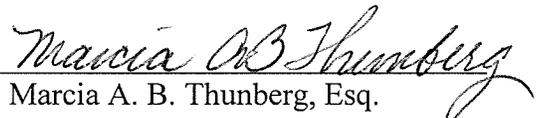
Dated: 12/10/10

By: 

Donald C. Crandlemire, Esq.
Shaheen & Gordon, P.A.
P.O. Box 2703
Concord, NH 03302

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Dated: 12/10/10

By: 

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Concord, NH 03301
(603) 271-2431

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LAKES REGION WATER COMPANY, INC.
REVENUE REQUIREMENT - STEP 3

	Hidden Valley	Gunstock Glen	Brake Hill	TOTAL
<u>NET PLANT ADDITIONS TO RATE BASE (Schedule 2):</u>				
304 Structures and Improvements	\$ 27,346	\$ 30,267	\$ -	\$ 57,613
307 Wells	40,517	-	-	40,517
311 Pumping Equipment	13,224	8,936	-	22,160
330 Distribution Reservoirs	791	798	-	1,589
331 Mains	46,666	28,079	-	74,745
334 Meters	2,575	-	-	2,575
339 Other	1,085	-	-	1,085
TOTAL	132,204	68,080	-	200,284
Less: Accumulated Depreciation	(5,324)	(1,881)	-	(7,205)
NET PLANT IN RATE BASE	\$ 126,880	\$ 66,199	\$ -	\$ 193,079
Return on Additions to Rate Base (Schedule 4) @ 9.25%	\$ 11,741	\$ 6,126	\$ -	\$ 17,867
Less: Marginal Revenue - Gunstock Glen System	\$ -	\$ (13,391)	\$ -	\$ (13,391) a
2009 Revenue from York Village	-	(1,919)	-	(1,919) b
Total Deductions from Revenue	\$ -	\$ (15,310)	\$ -	\$ (15,310)
Depreciation Expense (Schedule 2)	\$ 4,489	\$ 2,230	\$ -	\$ 6,719
State and Local Property Taxes (Schedule 3)	1,059	931	-	1,990
Federal and State Income Taxes (Schedule 3)	2,609	(2,041)	-	568
Total Operating Expenses	\$ 8,158	\$ 1,119	\$ -	\$ 9,277
Additional Revenue Requirement - Step 3	\$ 19,898	\$ (8,066)	\$ -	\$ 11,833
2009 Operating Water Revenues Subject to Step 3				766,032 c
TOTAL REVENUE REQUIREMENT SUBJECT TO STEP 3				\$ 777,865
PERCENTAGE INCREASE IN WATER REVENUES SUBJECT TO STEP 3				1.54%

a Marginal Increase in Gunstock Glen System Revenues from Change to Unmetered Consolidated Rate:

Projected Annual Revenue from Gunstock Glen under Unmetered Consolidated Rate:

Projected Unmetered Consolidated Rate after Step 3	\$ 482.68	
Number of Gunstock Glen Customers	x 55	Customers
Estimated Average Annual Revenue from Gunstock Glen under Metered Rate	\$ 26,547	

Current Annual Revenue from Gunstock Glen System under Stand-alone Rate:

Current Tariffed Stand-alone Rate for Gunstock Glen	\$ 239.20	
Number of Gunstock Glen Customers	x 55	Customers
Present Annual Revenue from Gunstock Glen System under Stand-alone Rate	\$ 13,156	

Marginal Increase in Gunstock Glen System Revenues from Change to Projected Unmetered Consolidated Rate

\$ 13,391

b 2009 York Village Revenues:

Revenues received during 2009 from York Village Customers as a result of the Gunstock Glen / Brake Hill Interconnection

\$ 1,919

c 2009 Operating Water Revenues Subject to Step 3:

2009 Total Water Operating Revenues	\$ 990,964
Less: Total Other Operating Revenues	(93,101)
2009 Sales of Water	897,863
Less: Suissevale Special Contract # 2 Revenues	(131,831)
2009 Operating Water Revenues Subject to Step 3	\$ 766,032

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LAKES REGION WATER COMPANY, INC.
PLANT AND DEPRECIATION - STEP 3

PLANT IN SERVICE

<u>PUC Acct No.</u>	<u>Description</u>	<u>Cost per Co Filing</u>	<u>Staff Adjustments</u>	<u>Adjusted Cost</u>	<u>Depreciation Rate</u>	<u>Annual Expense</u>	<u>Accum Depreciation</u>	<u>Net Book Value</u>
Hidden Valley								
304	Structures - 2008	\$ 13,547	\$ 4,711 a	\$ 18,258	2.50%	\$ 456	\$ 685	\$ 17,573
304	Structures - 2009	9,088		9,088	2.50%	227	114	8,974
307	Wells - 2008	40,517		40,517	3.33%	1,349	2,024	38,493
311	Pumps - 2008	3,472	(248) b	3,224	10.00%	322	484	2,740
311	Pumps - 2009	10,000		10,000	10.00%	1,000	500	9,500
330	Distribution Reservoirs - 2008	791		791	2.22%	18	26	765
331	Mains - 2008	47,733	(1,067) b	46,666	2.00%	933	1,400	45,266
334	Meters - 2009	2,575		2,575	5.00%	129	64	2,511
339	Other - 2009	1,085		1,085	5.00%	54	27	1,058
	TOTAL	\$ 128,808	\$ 3,396	\$ 132,204		\$ 4,489	\$ 5,324	\$ 126,880
Gunstock Glen								
304	Structures - 2008	\$ 36,868	\$ (10,650) b	\$ 26,218	2.50%	\$ 655	\$ 983	\$ 25,235
304	Structures - 2009	4,049		4,049	2.50%	101	51	3,998
307	Wells	-		-	3.33%	-	-	-
311	Pumps - 2008	1,784	(787) c	997	10.00%	100	150	847
311	Pumps - 2009	4,086	3,853 a	7,939	10.00%	794	397	7,542
330	Distribution Reservoirs - 2008	505		505	2.22%	11	17	488
330	Distribution Reservoirs - 2009	293		293	2.22%	7	3	290
331	Mains - 2009	37,189	(9,110) b	28,079	2.00%	562	281	27,798
334	Meters	-		-	5.00%	-	-	-
339	Other	-		-	5.00%	-	-	-
	TOTAL	\$ 84,774	\$ (16,694)	\$ 68,080		\$ 2,230	\$ 1,881	\$ 66,199
Brake Hill								
304	Structures - 2009	\$ 31,611	\$ (31,611) d	\$ -	2.50%	\$ -	\$ -	\$ -
307	Wells	-		-	3.33%	-	-	-
311	Pumps	-		-	10.00%	-	-	-
330	Distribution Reservoirs	-		-	2.22%	-	-	-
331	Mains	-		-	2.00%	-	-	-
334	Meters	-		-	5.00%	-	-	-
339	Other	-		-	5.00%	-	-	-
	TOTAL	\$ 31,611	\$ (31,611)	\$ -		\$ -	\$ -	\$ -
COMBINED TOTAL		\$ 245,193	\$ (44,909)	\$ 200,284		\$ 6,719	\$ 7,205	\$ 193,079

- a To add back retired plant netted against cost of additions. (Based on Company's response to OCA DR 4-5)
- b Eliminations based on 09/22/10 NHPUC Staff Audit Report.
- c Support not provided by Company in its response to Staff DR 3-5.
- d Assets not included in original approved settlement agreement.

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TAXES - STEP 3

	<u>Hidden Valley</u>	<u>Gunstock Glen</u>	<u>Brake Hill</u>	<u>TOTAL</u>
Property Tax Expense:				
Net Plant in Service (Schedule 2)	\$ 126,880	\$ 66,199	\$ -	\$ 193,079
Assessment Adjustment Percentage	65.00%	65.00%	65.00%	65.00%
Adjusted Assessment Level (65%)	\$ 82,472	\$ 43,029	\$ -	\$ 125,502
Local Property Tax Rate (per \$1,000)	\$ 6.24 ^a	\$ 15.03 ^b	\$ 15.03 ^b	[REDACTED]
State Property Tax Rate (per \$1,000)	6.60	6.60	6.60	[REDACTED]
Combined Tax Rate (per \$1,000)	\$ 12.84	\$ 21.63	\$ 21.63	[REDACTED]
Combined State/Local Property Taxes	<u>\$ 1,059</u>	<u>\$ 931</u>	<u>\$ -</u>	<u>\$ 1,990</u>
 a - Town of Tuftonboro 2010 Total Tax Rate less State School Rate (\$8.49 - 2.25 = \$6.24) b - Town of Gilford 2010 Total Tax Rate less State School Rate (\$17.62 - \$2.59 = \$15.03)				
 Income Tax Expense:				
Return on Additional Plant (Schedule 1)	\$ 11,741	\$ 6,126	\$ -	\$ 17,867
Less: Marginal Revenue - Gunstock Glen System (Schedule 1)	-	(13,391)	-	(13,391)
2009 Revenue from York Village	-	(1,919)	-	(1,919)
Net Income before Taxes	11,741	(9,185)	-	2,556
Effective Tax Rate (Schedule 5)	22.23%	22.23%	22.23%	22.23%
Combined Federal/State Income Taxes	<u>\$ 2,609</u>	<u>\$ (2,041)</u>	<u>\$ -</u>	<u>\$ 568</u>

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LAKES REGION WATER COMPANY, INC.
RATE OF RETURN - STEP 3**

	<u>Amount</u>	<u>Cost Rate</u>	<u>Annual Interest</u>	<u>Annual Debt Cost</u>	<u>Total Annual Cost</u>	<u>Real Cost Rate</u>	<u>Weighted Average</u>	<u>Weighted Average Cost</u>
TD Banknorth	\$ 193,244	7.47%	\$ 14,435	\$ -	\$ 14,435	7.47%	21.77%	1.63%
Additional Paid-in Capital	<u>694,279</u>	9.75%	<u>-</u>	<u>-</u>	<u>-</u>	9.75%	<u>78.23%</u>	<u>7.63%</u>
Total Financing	<u>\$ 887,523</u> a		<u>\$ 14,435</u>	<u>\$ -</u>	<u>\$ 14,435</u>		<u>100.00%</u>	<u>9.25%</u>

(a) Total Financed Projects:

Step 1 Plant Additions (Per 09/25/08 Stipulation Agreement):	\$ 307,691
Step 2 Plant Additions - net of CIAC (Per 09/25/08 Stipulation Agreement):	379,548
Step 3 Plant Additions (Per Schedule 2):	<u>200,284</u>
Total Plant Additions	<u>\$ 887,523</u>

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LAKES REGION WATER COMPANY, INC.
EFFECTIVE TAX FACTOR - STEP 3

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>15.00%</u>
Effective Federal Income Tax Rate	13.73%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>22.23%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>22.23%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>77.78%</u></u>
Tax Multiplier	<u><u>0.28576</u></u>

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LAKES REGION WATER COMPANY, INC.
COMPUTATION OF RATES - STEP 3

Total Revenue Requirement Subject to Step 3 (Schedule 1)		\$ 777,865
Less: Annual Operating Revenue - WVG Community Pool		
Current Authorized Revenue Per Tariff	\$ 1,140.73	
1 + Percentage Increase in Revenue Requirement	X 1.0154	(1,158.35)
Less: Annual Operating Revenue - Non-metered Customers		
Annual Water Revenues from General Customers less Annual Revenue - WVG Pool	\$ 776,707	
Total Consolidated Rate Customers (including Gunstock Glen)	÷ 1,614	
Annual Revenue Requirement per Customer		\$ 481.23
Total Non-metered Customers (including Gunstock Glen)	X 574	\$ (276,226)
Revenue Requirement Collected through Minimum Charge and Consumption Charge		\$ 500,480
Calculation of Metered Rate: $X + Y \times (28,368 \text{ ccf (a)} \div 1,040 \text{ metered customers}) =$ (X = Minimum Charge; Y = Consumption Charge)	\$ 481.23	charge per customer
<u>Calculation of Present Proportion of Minimum Charge to Consumption Charge:</u> Present Annual Minimum Charge Per Tariff: (X)	\$ 365.01	
Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y)	÷ \$ 3.83	
Proportion of Present Minimum Charge to Present Consumption Charge: $(X \div Y)$	95.3	
<u>Calculation of Consumption Charge:</u>		
X + Y * 28,368 ÷ 1,040 = \$ 481.23		
Y * 95.3 + Y * 27.3 = \$ 481.23		
Y * 122.6 = \$ 481.23		
Y = \$ 3.93 * 28,368 = \$ (111,369)		
Revenue Requirement Collected through Minimum Charge		\$ 389,111
<u>Calculation of Annual Minimum Charge:</u>		
X + Y * 28,368 ÷ 1,040 = \$ 481.23		
X + \$ 3.93 * 27.3 = \$ 481.23		
X + \$ 107.09 = \$ 481.23		
X = \$ 374.15 * 1,040 = \$ (389,111)		
Remainder of Total Revenue Requirement Subject to Step 3		\$ -

a Conversion of Metered Consumption from Gallons to CCF:

2009 Total Consumption by Metered Customers (Gallons)	32,887,000	Gallons
Less: 2009 Suissevale Metered Consumption (Gallons)	(11,666,000)	Gallons
2009 Consumption by Metered Customers subject to Step 3 (Gallons)	21,221,000	Gallons
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	÷ 748.05	Gallons
2009 Consumption by Metered Customers subject to Step 3 (CCF)	28,368	CCF