STAFF EX. 1

ORIGINAL

N.H.P.U.C. Case No. DW 10-141

Exhibit No. Staff 1

Witness Jason Laflamme

DO NOT REMOVE FROM FILE

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DW 10-141 and DW 11-021

In the Matter of:
Lakes Region Water Company, Inc.
Petition for Permanent Rates and Step Increase
Petition for Approval of Long-term Debt

Direct Testimony

of

Jayson P. Laflamme
Staff Utility Analyst, Gas and Water Division

October 14, 2011

Table of Contents

New Hampshire Public Utilities Commission

Lakes Region Water Company, Inc.

DW 10-141 and DW 11-021

Petition for Permanent Rates and Step Increase
Petition for Approval of Long-term Debt

Direct Testimony of Jayson P. Laflamme

I. INTRODUCTION

Q. Please state your full name.

A. My name is Jayson P. Laflamme.

Q. By whom are you employed and what is your business address?

A. I am employed by the New Hampshire Public Utilities Commission (NHPUC) and my business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. What is your position at the NHPUC?

A. I am a Utility Analyst in the Gas and Water Division.

Q. Please describe your duties at the NHPUC.

A. I am responsible for the evaluation of rate and financing filings, including the recommendation of changes in revenue levels that conform to regulatory methodologies. I represent Staff in meetings with company officials, outside attorneys and accountants relative to rate case and financing matters as well as the Commission's rules, policies and procedures.

Q. Would you please describe your educational background?

A. I received a Bachelor of Science Degree in Accounting from Lyndon State College in 1989. In 1998, I attended the NARUC Annual Regulatory Studies Program at Michigan

State University. In 2002, I attended the 22nd Annual Western Utility Rate School in San Diego, California.

Q. Would you please describe your work experience?

A. In 1989, I was hired as a Staff Accountant by Driscoll & Company, a CPA firm located in Littleton, New Hampshire. I performed audits, reviews and compilations as well as prepared tax returns for a variety of entities. I was eventually promoted to the position of Manager. In 1997, I was hired as a Utility Examiner in the Audit Division of the NHPUC. In that position, I participated in field audits of the books and records of regulated utilities in the electric, telecommunications, water, sewer and gas industries. I examined reports and filings submitted to the Commission by regulated utilities and performed rate of return analyses. In 2001, I was promoted to my current position as a Utility Analyst in the Commission's Gas and Water Division.

Q. What is the purpose of your testimony?

A. My testimony will provide Staff's recommendation with regard to a permanent rate revenue requirement for Lakes Region Water Company, Inc. (LRWC or the Company). Additionally, my testimony will provide Staff's recommendation regarding a step increase for LRWC in this rate proceeding. Finally, incorporated within my discussions regarding the previous two items, my testimony will also provide Staff's recommendations relative to certain debt issuances made by the Company from 2004 through 2010.

II. STAFF RECOMMENDATION FOR PERMANENT RATES

Q. Please provide a brief summary of LRWC's request for permanent rates in this proceeding.

A. On July 19, 2010, LRWC filed a petition, including testimony and supporting schedules, requesting approval of a permanent rate increase designed to generate additional revenues of $312,059, representing a 40.74% increase in its annual operating water revenues. The Company utilized a 2009 test year in making its determinations.

Q. Are temporary rates currently in effect in this docket?

A. Yes. On February 18, 2011, the Commission issued Order No. 25,196 authorizing a temporary increase in LRWC's annual revenues of $143,964, or 18.51%, to be implemented on a service rendered basis on or after September 17, 2010.

Q. Was an audit performed by the Commission Staff?

A. Yes, and I would like to commend the Commission's Audit Staff for their excellent work in this case. The Audit Staff was quite thorough in its examination of the Company's test year and reported on a number of issues in its Final Audit Report dated February 15, 2011 (Final Audit Report). Many of those issues have been incorporated into Staff's recommendations.

Q. Please summarize Staff's recommendation regarding a permanent rate revenue requirement for LRWC in this case.

A. As illustrated on Schedule 1 of Attachment JPL-1, Staff is recommending a revenue requirement for LRWC's general water customers of $929,517. This represents an increase of $145,120, or 18.50%, over LRWC's pro-formed test year operating water revenues from general customers of $784,397. Staff's recommended revenue requirement is calculated utilizing a total rate base of $2,333,649 which is computed on Schedule 2 of Attachment JPL-1 and provides for an overall rate of return of 8.08% which is calculated on Schedule 1a of Attachment JPL-1. The overall effective tax rate reflected in Staff's calculations is 0.00% as illustrated on Schedule 1b of Attachment JPL-1.

Q. You indicate that the permanent revenue requirement applies to LRWC's "general water customers". Please explain.

A. The majority of LRWC's operating revenues are derived from the service it provides to its seventeen water systems whose customers comprise what Staff refers to as "general water customers". LRWC also derives revenue from a special contract that it has with the Property Owners Association at Suissevale, Inc. (POASI). This special contract was approved by Commission Order No. 24,693 issued on October 31, 2006 in docket DW 06-133. While the revenues derived from this special contract do influence the revenue requirement to be determined in the instant docket, the revenue requirement being proposed by Staff in my testimony only applies to LRWC's general water customers who reside in the seventeen systems it operates.

Q. At the bottom of Schedule 1 of Attachment JPL-1 there is a "Calculation of Adjusted Test Year Revenues from General Customers". Please explain.

A. The Company originally reported an amount of $766,032 for revenues received from general water customers during the test year. However, during the course of discovery, it was concluded that certain adjustments needed to be made to this amount in order to more accurately reflect these revenues for ratemaking. Therefore, three adjustments were made to the Company's original amount resulting in an overall increase of $18,365 to

$784,397. A further explanation relative to each adjustment will be provided later in my testimony.

III. <u>RATE OF RETURN</u>

Q. What is the rate of return proposed by LRWC in its filing?

A. In Schedule 4 of its filing, LRWC calculated a weighted average rate of return of 8.52%. This was based upon a total capitalization of $2,090,184 including total equity of $1,034,145 (49.48%) and total long-term debt of $1,056,039 (50.52%). The Company applied a 9.75% rate of return to equity, which is consistent with other equity returns approved by the Commission in recent dockets involving small water utilities. For cost of debt, the Company derived an overall percentage of 7.31%.

Q. Please explain how Staff derived its proposed rate of return of 8.08%.

In Schedule 1a of Attachment JPL-1, Staff has detailed its calculations in support of its proposed weighted average rate of return of 8.08%. Column 4 shows the adjusted capitalization components derived by Staff which include long-term debt capital of $865,184 (46.99%), 9.75% equity capital of $842,145 (45.74%) and 6.00% equity capital of $134,026 (7.28%) for a total of $1,841,355.

Q. Please discuss the outstanding debt that Staff used in its determination of weighted average cost of debt.

A. With regard to weighted average cost of debt, Staff derived an overall cost percentage of 3.18%. However, the debt issuances which comprise the Company's overall debt component are comprised of four categories. This is illustrated in greater detail on Schedule 1ai of Attachment JPL-1 which shows the four categories as consisting of 1)

Previously Approved Debt, 2) Unapproved Debt, 3) New Hampshire Department of Corrections (NHDOC) Debt and 4) Loan from Shareholders. LRWC's Previously Approved Debt consists of three TD Bank loans with a combined outstanding balance as of December 31, 2009 of $777,323. These loans received previous Commission approvals in Order No. 24,254 in docket DW 03-189 and Order No. 24,401 in docket DW 04-185. The Unapproved Debt category consists of nine loans from a variety of lenders with issuance dates ranging from 2004 through 2009 for which the Company did not previously seek Commission approval in accordance with RSA 369. The combined total of the initial issuances of this unapproved debt was $185,246 but as of December 31, 2009, the combined outstanding balance was $87,861. On February 1, 2011, LRWC submitted a filing to the Commission which included a request for Commission approval of this previously issued debt. The Company's filing was docketed by the Commission as DW 11-021. The NHDOC "debt" is actually a fine levied against the Company as a result of a recent criminal proceeding. The total amount that LRWC is obligated to pay is $110,000 over a three year period which began in October 2009. On December 31, 2009, the outstanding amount of the fine still owed was $103,880. As this amount pertained to a fine levied against LRWC in a criminal proceeding, the Company removed the outstanding amount owed from long-term debt for ratemaking purposes. Staff concurs with this adjustment. With regard to the Loan from Shareholders, the outstanding balance as of December 31, 2009 was $190,855. The funds received from LRWC's shareholders enabled the Company to replace and install plant assets, extinguish past due accounts payable as well as assist in meeting operating expenses. However, in its DW 11-021 filing, LRWC stated its intention to reclassify the outstanding balance from long-term debt to additional paid-in capital. As such, Staff reflected this adjustment in both Schedules 1a and 1ai of Attachment JPL-1. After removal of the NHDOC debt and shareholder loan from long-term debt, the revised pro-forma balance of long-term debt is $865,184 consisting of $777,323 in previously approved debt and $87,861 in unapproved debt. As illustrated on Schedule1ai, the cost rate of the previously approved debt is 7.04% and the cost rate of the unapproved debt is 4.46%. The combined total cost rate of all of the Company's pro-forma long-term debt is 6.77%.

Q. What is Staff's recommendation relative to the Company's request for approval of its unapproved debt?

A. It is Staff's recommendation that the Commission should grant approval of this debt. Based on its analysis of these prior year issuances, Staff believes that the loans were prudent towards enabling LRWC to provide a safe and adequate supply of water to its customers. Further, where these loans were used to purchase various items of plant and equipment, Staff believes that these additions were prudent and reasonable and that the acquired assets were both used and useful to the Company in its operations. Lastly, the terms associated with each of the loans appear to be reasonable and will not adversely impact customer rates.

Q. Please explain Staff's adjustment on Schedule 1a of Attachment JPL-1 which reduces Additional Paid-in Capital by $192,000.

A. In LRWC's proposal for permanent rates, the Company included $192,000 of plant to be placed in service during 2010. The Company's filing indicated that these post-test year additions would be financed by an equity infusion from its shareholders. Staff opposes the inclusion of post -test year plant in the determination of perman ent rates. Staff believes that ratemaking relative to post-test year plant additions should be either considered within the context of a step increase or a subsequent rate proceeding. Therefore, Staff is reversing LRWC's adjustment to increase additional paid-in capital by the amount of these post-test year plant additions.

Q. Please explain the reclassification of $134,026 of LRWC's capitalization into a lower cost equity category.

A. As previously discussed, the basis for this adjustment is the Company's shareholder loan to be reclassified as additional paid-in capital. As of December 31, 2009, the balance of this shareholder loan was $190,855. However, Staff has reduced this amount by $56,829 to $134,026, for pension and health insurance payments paid by the Company to its shareholders during the test year. A further explanation regarding Staff's reasoning behind these offsetting amounts will occur later in my testimony. Staff is also proposing that the rate of return associated with this reclassified paid-in capital should be 6.00% rather than 9.75%. Staff's reasoning for this is due to the Company's seeming reluctance and lack of initiative towards pursuing lower-cost financing sources for necessary capital improvements. In DW 02-156, a previous rate proceeding, the Commission issued Order No. 24,196 in which it expressed concerns regarding LRWC's relatively high cost of debt that included a shareholder loan with an interest rate of 10.00%. In that order, the Commission charged the Company with replacing its existing debt with lower cost financing and to continuously make reports to the Commission with regard to its progress in this regard. In a subsequent financing docket, DW 03-189, the Commission commended LRWC in Order No. 24,254 for its expeditious efforts towards achieving this goal which included the complete replacement of its shareholder loan with lower cost debt. At this time, however, Staff is concerned that the Company has passed up opportunities to obtain low cost financing from the State Revolving Funds (SRF) program administered by the New Hampshire Department of Environmental Services (NHDES) for certain capital improvements. As an example, in DW 09-098, the Company petitioned for financing approval of a $1.5 million loan from funds made available through the American Recovery and Reinvestment Act (ARRA) of 2009 which were to be reimbursed through the SRF program. The funds were to be used to finance seven capital improvement projects to address significant needs in the Company's systems. The terms of the financing included a 50.00% principal forgiveness ($750,000) as well as an anticipated interest rate of 3.744%. On July 2, 2009, the Commission issued Order No. 24,983 granting approval for this financing. However, on October 20, 2009, LRWC informed NHDES that it was withdrawing its request for this loan. During the test year, the Company's borrowing from shareholders increased by $52,116 to $190,855 at year end. In response to Staff Data Request 1-9, LRWC indicated that the outstanding balance of its shareholder loan had grown to $240,190 as of September 30, 2010. The Final Audit Report indicated that the shareholders obtained the funds for its loans to the Company through a personal home equity loan. In its response to Staff Data Request 3-21, LRWC stated that the interest rate on this home equity loan was 2.24%. Given all of these factors, Staff believes that it is appropriate that the shareholder loan converted to equity should carry a cost that is lower than the Company's other equity financing and more in line with financing rates that are prevalent in today's economy.

IV. <u>EFFECTIVE TAX RATE</u>

Q. Please explain why Staff is recommending an effective tax rate of 0.00%.

A. In its filing, LRWC is recommending a total pro-forma income tax expense of $49,528 which encompasses both federal and state income taxes. The marginal tax rates being employed by the Company are 8.50% for state taxes and 39.00% for federal taxes. In Staff Data Request 1-6, the Company was asked to provide the balances of its respective federal and state net operating loss carryforwards as of December 31, 2009. In its response, the Company stated that its federal net operating loss carryforward was $228,981 and its state net operating loss carryforward was $269,600. Given the respective levels of previous year losses available to the Company to offset future taxable income, Staff does not anticipate an immediate need for the Company's current revenue requirement to include a provision for income taxes. Therefore, Staff is proposing that the Company's effective tax rates for both federal and state income taxes should be 0.00%. Staff's proposal in this regard is reflected on Schedule 1b of Attachment JPL-1.

V. <u>RATE BASE</u>

Q. Please discuss the rate base amount calculated by Staff on Schedule 2 of Attachment JPL-1.

A. Column 1 shows the test year average rate base computed by LRWC in the amount of $2,418,855. Column 2 provides a summary of the Company's proposed rate base adjustments contained in its filing resulting in an increase to average rate base of $189,716. The overall test year rate base proposed by the Company in its filing is $2,608,571 as shown in Column 3. Columns 4 and 5 provide a summary of Staff's proposed adjustments to average rate base resulting in a net decrease of $274,922. Staff's adjustments are further detailed on Schedule 2a of Attachment JPL-1. Column 6 summarizes Staff's rate base proposal in this case of $2,333,649.

Q. A number of Staff's adjustments contained in Schedule 2a of Attachment JPL-1 appear to be the result of a difference in methodology in the calculation of rate base average between the Company and Staff. Could you please explain?

A. Yes. LRWC calculated the average of its various rate base components based on a year-end, or two-point, methodology. However, Rule Puc 1604.07 indicates that average rate base should be calculated based upon either a 5-quarter or 13-month methodology. Given the size of LRWC, Staff believes that the 13-month average methodology is most appropriate to use in this case. Schedule 2b of Attachment JPL-1 shows Staff's calculations of the 13-month averages for the components included in LRWC's rate base. The month-end balances on which Staff's calculations are based stem from the Company's responses to Staff Data Requests 1-8 and 2-12. Staff's calculations result in the following adjustments contained in Schedule 2a of Attachment JPL-1:

Staff Adj	Rate Base Component	Amount
# 1	Plant in Service	$(12,513)
# 5	Accumulated Depreciation	$(18,396)
# 10	Accumulated Amortization – Acquisition Adj	$(446)
# 13	Contributions in Aid of Construction (CIAC)	$(3,846)
# 14	Accumulated Amortization – CIAC	$(324)
# 17	Materials and Supplies	$ 12,806
# 20	Prepaid Expenses	$ 1,936

# 23	Customer Deposits	$(1,442)
	Net Reduction in Rate Base	**$(22,225)**

Q. A number of Staff's pro-forma adjustments to rate base appear to be reversals of pro-forma adjustments proposed by the Company in its filing. Please explain.

A. Yes. There are basically two categories of such adjustments. The first category consists of those adjustments proposed by the Company in order to reflect the year-end balance for various rate base components rather than the test year average. Traditional ratemaking requires the use of a test year average for rate base as opposed to using the year-end balance. As such, it is necessary for Staff to make the following adjustments in order to reverse various pro-forma adjustments proposed by LRWC in Schedule 3A of its filing to reflect the year-end balance of its rate base components:

Staff Adj	Co Adj	Rate Base Component	Amount
# 2	# 1	Plant in Service	$(71,889)
# 6	# 3	Accumulated Depreciation	$ 57,169
# 11	# 6	Accum Amort – Acquisition Adj	$(2,172)
# 15	# 11	Accum Amort – CIAC	$(8,456)
# 19	# 8	Materials and Supplies	$ 14,217
# 21	# 9	Prepaid Expenses	$ 1,575
		Net Reduction in Rate Base	**$(9,556)**

The other category of reversing adjustments by Staff are those which pertain to LRWC's proposal to include post-test year plant additions in its rate base for purposes of deriving permanent rates. Staff believes that such post-test year plant additions should only be considered for ratemaking purposes within the context of a step increase or a subsequent rate case. Therefore, the following adjustments contained in Schedule 2a of Attachment JPL-1 reverse pro-forma adjustments proposed by LRWC in Schedule 3A of its filing to include certain post-test year plant in test year rate base:

Staff Adj	Co Adj	Rate Base Component	Amount
# 3	# 2	Plant in Service	$(192,000)
# 8	# 5	Accumulated Depreciation	$ 3,634
		Net Reduction in Rate Base	**$(188,366)**

Q. Please explain Staff Adjustments # 4 and # 9 relative to certain DW 08-070 – Step 3 plant additions that are included in test year rate base.

A. In docket DW 08-070, the Commission considered a series of three step increases for various plant improvements made by LRWC in recent years. The first two step increases were approved by the Commission in Order No. 24,925 issued on December 30, 2008. On May 20, 2010, LRWC filed for approval of the third step increase which pertained to system upgrades made by the Company during the years 2008 and 2009. As such, these improvements are also part of the plant in service included in the rate base that is under consideration in the instant docket. As a result of discovery in connection with the third step increase, which included a Staff audit of the costs of the 2008 and 2009 assets, certain adjustments were made to those plant assets as well as the associated depreciation on those assets. These adjustments were reflected in the Stipulation Agreement in that case which was approved by Commission Order No. 25,197 issued on February 18, 2011. Staff Adjustments # 4 and # 9 stem from those adjustments contained in the approved DW 08-070 Stipulation Agreement. Schedule 2c of Attachment JPL-1 forms the basis for Staff's adjustments. Adjustment # 4 reduces average plant in service by $19,422 while adjustment # 9 increases average accumulated depreciation by $764. Together, these two adjustments decrease LRWC's rate base by $20,186.

Q. There are two rate base adjustments being proposed by Staff whose purposes appear to be merely to conform the Company's pro-forma adjustments to a test year average methodology. Please explain.

A. Yes. Since the rate base amount being proposed by Staff is based on a test year average methodology, Staff believes that the individual pro-forma adjustments to rate base proposed by the Company should be made to conform with that methodology as well. Staff specifically noted two rate base adjustments proposed by LRWC which were presented in its filing in such a way so as to coincide with the Company's proposal to use a year-end methodology for rate base rather than a test year average. While Staff agrees with the basic premises behind each adjustment, it feels that they should be modified in order to conform to the test year average methodology being reflected in Staff's schedules. The Company's Rate Base Adjustment # 4 which increases accumulated depreciation by $6,293 was proposed in order to reflect a full year's worth of accumulated depreciation on plant placed in service during the test year. Staff Adjustment # 7, reduces this amount by half, or $3,147, in order to reflect the average test year methodology. The Company's Rate Base Adjustment # 10 reduces prepaid expenses by $2,287 to reflect the full amortization of certain prepaid purchased water costs during the test year. Staff Adjustment # 22 decreases this amount by half, or $1,144; again, to reflect an average test year methodology.

Q. Please explain Staff Adjustment # 12 to increase Accumulated Amortization of Acquisition Adjustment by an amount of $1,364.

A. This adjustment pertains to Staff Audit Issue # 5 contained in the Final Audit Report relative to certain correcting adjustments recorded by the Company during the test year to amortization expense and accumulated amortization of acquisition adjustment. Per the Final Audit Report, a net adjustment to increase the accumulated amortization of acquisition adjustment account by $1,364 was proposed by the Audit Staff and accepted by LRWC.

Q. Please explain Staff Adjustment # 16 reducing Cash Working Capital by $29,742.

A. The calculation of Staff's Cash Working Capital component is found on Schedule 2b of Attachment JPL-1. The net amount computed by Staff of $135,506 is based upon the pro-forma Operation and Maintenance (O & M) Expenses after Staff adjustments found in Column 6 of Schedule 3 of Attachment JPL-1. It should be noted that according to LRWC's tariff on file at the NHPUC, all of the Company's customers are billed in arrears, with the exception of those who receive service from LRWC's Tamworth system who are billed in advance. This is reflected in Staff's computation which calculates distinct cash working capital components for the Tamworth system and for all of the other LRWC systems. When Staff's calculated amount is compared to that proposed by the Company in its filing of $165,248, the result is a $29,742 decrease in the Cash Working Capital component of rate base.

Q. Please discuss Staff Adjustment # 18 which decreases Materials and Supplies by an amount of $10,500.

A. The basis for this adjustment is the Company's proposed Inventory Adjustment # 8 found on Schedule 1B of its filing to reduce O & M Expenses by $11,750. The Company explained that during 2007 and 2008 it had inadvertently failed to charge out the usage of certain inventory to various expense accounts. Therefore, during the test year it recorded a series of adjustments to these expense accounts for the purpose of appropriately reflecting these previously uncharged items. In its filing, the Company reversed these prior period adjustments through Inventory Adjustment # 8 in order that test year O & M Expenses would not be artificially inflated for ratemaking purposes. However, Staff contends that since these adjustments pertained to inventory items that should have been charged off during the years prior to the test year, an adjustment to the Company's Materials and Supplies rate base component should also be recorded so that the test year average of this account will not be artificially inflated as well. Therefore, Staff is proposing Adjustment # 18 to reduce the test year average of Materials and Supplies for the inflated month-end balances of this rate base component that were carried on LRWC's books from December 2008 through November 2009.

VI. NET OPERATING INCOME

Q. Please discuss the Operating Income Statement for LRWC presented on Schedule 3 of Attachment JPL-1.

A. Column 1 presents the actual test year operating activity for the Company which results in its recognition of a $2,539 net operating loss. Column 2 summarizes the adjustments presented by the Company in its filing relative to test year operating income and expenses. The Company's net adjustments of $224,747 result in a test year pro-forma net operating income amount of $222,208 shown in Column 3 as presented in LRWC's filing. Columns 4 and 5 summarize Staff's adjustments to operating income and expenses from Schedule 3a of Attachment JPL-1. Staff's adjustments result in a net increase of $95,857 in the Company's pro-forma net operating income. Column 6 presents Staff's proposed test year pro-forma net operating income amount of $318,065 which it uses to calculate the Company's revenue requirement on Schedule 1 of Attachment JPL-1. Columns 7 and 8 present the effect of Staff's proposed revenue requirement from Schedule 1 of Attachment JPL-1 resulting in a net operating income requirement of $188,536 (Column 8).

Q. With regard to the adjustments that Staff is proposing to LRWC's Operating Revenues, please first discuss Staff Adjustment # 24 which decreases test year Water Sales to General Customers by $12,187.

A. Just prior to LRWC's rate case filing in this docket, the Company submitted its filing for a third step increase in docket DW 08-070 in the amount of $37,411. LRWC reflected this proposed step increase in the revenue requirement for the instant docket via Operating Revenues Adjustment # 1 on Schedule 1A of its filing. As discussed previously, a Stipulation Agreement was reached and approved in DW 08-070 resulting in a third step increase in revenues for LRWC of $25,224. As such, Staff is proposing a reduction in the Company's pro-forma revenues by $12,187 which is the difference between the step increase initially requested by LRWC in DW 08-070 and that which was ultimately approved by the Commission.

Q. Please discuss Staff Adjustment # 25 to decrease Water Sales to General Customers by an amount of $7,714.

A. During discovery, Staff noted that annual revenues reported by the Company consistently did not properly reflect year end unbilled water sales to customers. These "unbilled revenues" need to be appropriately reflected in the Company's test year in order to achieve a proper matching of test year revenues with test year expenses. Since this was not the case with the Company's reported test year water revenues, an adjustment was necessary to first, remove 2008 unbilled revenues and second, add 2009 unbilled revenues to test year earnings. In Staff Data Request 3-5, the Company was asked to provide the appropriate unbilled revenue adjustments for the test year. The Company's responses to that data request as well as to Staff Tech 1-1 are the bases for Staff's Adjustment # 25 resulting in a $7,714 net decrease in the Company's test year water sales to general customers.

Q. Please discuss Staff Adjustment # 26 which increases Water Sales to General Customers by $855.

A. This adjustment stems from Audit Issue # 6 in the Final Audit Report concerning the fact that certain officers and directors of the Company were receiving water service from LRWC but were not being charged for their usage. In its response to Staff Data Request 3-4, the Company indicated that the unbilled water service to its officers and directors during 2009 translated into $855 that should be reflected in test year revenues.

Q. Please explain Staff Adjustment # 27 relative to a $2,583 decrease in revenues from the special contract that LRWC has with POASI.

A. The Company's rate filing included Operating Revenues Adjustment # 2 to reflect an estimated decrease in revenues from its special contract with POASI of $3,270 from the $131,831 earned in 2009 to an amount of $128,561 in anticipated earnings for 2010. However, in its response to Staff Data Request 3-3, LRWC indicated that its actual 2010 revenues from the POASI contract were, in fact, only $125,978. Therefore, Staff is proposing Adjustment # 27 in order to reflect the actual 2010 special contract revenue from POASI in the Company's test year.

Q. Turning our attention now to Staff's adjustments to the Company's operating expenses; please explain Staff Adjustment # 28 to increase Source of Supply Expenses by $300.

A. This adjustment is based on Staff Audit Issue #7 in the Final Audit Report. The Company recorded a prior period adjustment during the test year which reduced the Company's purchased water expense by $300. As such, a pro-forma adjustment increasing this expense by $300 is being made in order to properly reflect test year operating expenses.

Q. Please discuss Staff Adjustment # 29 to decrease Transmission and Distribution Expenses by $230.

A. This pro-forma adjustment stems from the Final Audit Report and concerns a test year equipment rental charge for $230 not supported by any documentation. The Audit Staff deemed this to be an expense that should be removed from the test year.

Q. Please explain Staff Adjustments # 30 which reduces Administrative and General Expenses by $568.

A. In its rate filing, the Company proposed Operating and Maintenance Expense Adjustment # 1 in order to reflect a full year's wages for LRWC's Supervisor who actually joined the Company in the midst of the test year. The Company proposed that the Supervisor's test year wages should reflect an additional 650 work hours resulting in an increase in wages of $10,490. However, the Company's pro-forma entry did not adjust for that portion of the Supervisor's increased wages that should be capitalized. Columns 8 and 9 of

Attachment 3ci of Attachment JPL-1 shows Staff's recalculation of this entry reflecting a capitalized portion of $568 which should be deducted from pro-forma expenses.

Q. Please discuss Staff Adjustment # 31 which increases test year Administrative and General Expenses by $21,953.

A. The Company proposed Operating and Maintenance Expense Adjustment # 2 on Schedule 1B of its rate filing in order to increase its pro-forma wage expense for the test year by $20,597. The Company provided workpapers in support of its filing showing how this adjustment was derived. Staff's review of the Company's workpapers, however, revealed certain problems with LRWC's computations relative to this proposed adjustment. Among these were that per the Final Audit Report and LRWC's response to Staff Data Request 3-9, it was revealed that the Company's actual test year wages included 53 pay periods instead of the normal 52. Additionally, the total work hours used to derive the Company's adjustment were based on 2010 rather than the test year. Thus, the Company's adjustment reflected employee work hours totaling only 12,382 as opposed to the adjusted test year work hours determined by Staff of 13,001. Schedule 3ci of Attachment JPL-1 was prepared by Staff in order to show its recalculation of the Company's pro-forma wage adjustment in order to correct these errors. As a result of Staff's recalculation, it was determined that an additional $21,953 should be added to LRWC's pro-forma test year wage expense.

Q. Does Staff's pro-forma wage recalculation necessitate an adjustment to LRWC's pro-forma Payroll Tax Expense?

A. Yes. The Company's Operating and Maintenance Adjustment # 3 on Schedule 1B of its filing results in a $2,255 increase in its pro-forma test year payroll tax expense relative to its proposed pro-forma wage adjustments. Based on Staff's pro-forma wage recalculation resulting in Adjustments # 30 and # 31, Staff also recalculated the Company's pro-forma payroll tax expense on Schedule 3cii of Attachment JPL-1. As a result, Staff Adjustment # 44 proposes an additional $2,488 in pro-forma payroll tax expense be added to LRWC's test year.

Q. Please explain Staff Adjustment # 32 which reduces LRWC's Administrative and General Expenses by $7,064.

A. The Company's Operating and Maintenance Expense Adjustment # 4 on Schedule 1B of its filing proposes an increase of $24,983 in LRWC's pro-forma health insurance expense. In support of its adjustment, the Company explained that it had decided to increase the portion it pays on behalf of its employees for medical insurance premiums from 50.00% to 90.00%. Staff's review of the workpapers provided by the Company in support of this adjustment raised a number of questions. First, Staff noted that during the test year, LRWC paid 100.00% of health insurance premiums for its office personnel as well as its shareholders. Staff asked the Company in Staff Tech 1-3 to clarify its intentions relative to the portion of its employees' health insurance premiums that it had committed to pay. In response, the Company stated that it, in fact, was intending to pay 100.00% of the health insurance premiums for all of its employees' as well as its shareholders. Second, the original workpapers reviewed by Staff indicated that the Company paid $19,728 in employee/shareholder health insurance premiums during the test year. However, the Company's response to Staff Data Request 3-12 indicated that it had, in fact, paid $26,047 in health insurance premiums during the test year. The Company also confirmed this higher amount in its response to Staff Tech 1-2. Finally, Staff took note of the fact that the Company was paying health insurance premiums on behalf of its shareholders. In its response to Staff Data Request 2-16, the Company stated that the shareholders were no longer involved in LRWC's daily operations. Additionally, according to LRWC's response to Staff Data Request 2-4, it stated that its payment of health insurance premiums payments on behalf of its shareholders had not been formally approved by LRWC's board of directors. Staff believes that it is inappropriate to include the cost of the health insurance premiums paid on behalf of its shareholders in the Company's operating expenses for ratemaking purposes. Instead, Staff proposes that these health insurance premiums should reduce the amount of the shareholder loans reclassified to additional paid-in capital discussed earlier in my testimony. Staff's recalculation of the Company's health benefit pro-forma is found on Schedule 3ciii of Attachment JPL-1 and reflects adjustments relative to the three issues discussed above. Staff's recalculation results in a reduction of $7,064 in the Company's pro-forma test year health benefit expense.

Q. Please explain Staff Adjustment # 33 which eliminates pension payments to shareholders from test year operating expenses.

A. During its review of LRWC's filing, Staff noted that the Company was making what was described as "pension payments" to its shareholders. In its response to Staff Data Request 3-12, the Company indicated that the total pension payments made to its shareholders during the test year amounted to $52,645. These payments were included in LRWC's test year operating expenses. In response to Staff Data Request 2-16, the Company explained that no contributions to any type of pension or retirement plan were made by the Company in prior years while the shareholders were active employees of

LRWC. Therefore, these so-called pension payments were being made for the purpose of compensating its shareholders during their retirement. The Company confirmed that the shareholders were no longer involved in the daily operations of LRWC. It is Staff's position that the inclusion of these so-called pension payments in the operating expenses of the Company is inappropriate for ratemaking purposes. Staff believes that since no contributions were made on behalf of the shareholders to any type of pension or other retirement plan during the period of their employment with LRWC, it is the shareholder's responsibility to provide for their respective retirements themselves, which conceivably should include a strategy relative to their personal investments in LRWC. Customer rates charged by LRWC already include a return on equity component on the shareholders' investment. As such, Staff believes that the ratepayers of LRWC should not now be held responsible to provide for the retirement needs of the shareholders through the operating expenses of the Company as well. Therefore, Staff has removed the amount of the pension payments from the Company's test year operating expenses and has reclassified them as a reduction in the shareholder loans reclassified to additional paid-in capital discussed previously.

Q. Please explain Staff Adjustment # 34 which decreases Administrative and General Expenses by an amount of $2,853.

A. The Final Audit Report identified a charge posted to Office Expense which appears to have been a reconciling item recorded so that the Company's accounts payable balance on a charge card would match the outside statements. Therefore, this charge is being deducted from test year operating expenses.

Q. Please discuss Staff Adjustment # 35 to reduce General and Administrative Expenses by $3,913.

A. This entry by Staff actually encompasses four adjustments totaling $3,913 relative to LRWC's outside accounting expense during the test year. Three of the adjustments stem from the Final Audit Report. The first relates to Staff Audit Issue # 9 where it was found that billings by an outside accountant exceeded the previously agreed upon amount by a total of $1,040. The second pertains to Staff Audit Issue # 10 where it was revealed that an $827 accounting charge pertaining to a previous financing docket (DW 08-098) had been misposted to general accounting expense rather than a deferred debit account. The third adjustment stems from an unsubstantiated accounting charge in the amount of $681. In addition to these three adjustments stemming from the Final Audit Report, Staff also is eliminating $1,365 in accounting charges incurred during the test year that are related to docket DW 07-105 as indicated in LRWC's response to Staff Data Request 1-3. This docket was established by the Commission to determine whether LRWC should be placed in receivership over concerns of whether the Company continues to possess the technical, managerial and financial capacity to provide safe and adequate service to its customers. Staff believes that the expenses incurred as a result of this docket are outside of the normal scope of operations for the Company and therefore should not be included in the test year operating expenses of the Company for purposes of setting rates.

Q. Please explain Staff Adjustment # 36 to decrease Administrative and General Expenses by an amount of $1,820.

A. This adjustment pertains to two issues involving the outside legal expenses incurred by LRWC during the test year. The first relates to legal charges related to DW 07-105. The

Company's response to Staff Data Request 1-4 indicated that these legal charges totaled $340. As stated previously, Staff believes that expenses related to DW 07-105 are outside of the normal operations of the Company and should not be included in test year operating expenses for ratemaking purposes. Additionally, Staff noted legal expenses totaling $1,480 which appear to relate to LRWC's recent criminal proceeding. Staff believes that these charges should also be removed from the pro-forma test year operating expenses. Staff has put together Schedule 3d of Attachment JPL-1 detailing these legal charges related to the Company's criminal proceeding.

Q. Please discuss Staff Adjustment # 37 which reduces Administrative and General Expenses by an amount of $1,136.

A. This adjustment is based on Staff Audit Issue # 11 where it was found that the Company's insurance expense included $1,136 in finance charges which the Audit Staff determined should not be included in test year operating expenses. Rather, these charges should have been recorded as part of the Company's overall interest expense.

Q. Please explain Staff Adjustment # 38 which reduces Administrative and General Expenses by $224.

A. The Final Audit Report indicated that LRWC incurred an expense during the test year of $224 for the placement of a newspaper ad relative to an ARRA financing which it ultimately did not utilize. As such, the Audit Staff deems this charge to be a non-recurring expense which should be removed from the test year.

Q. Turning now to Depreciation Expense, please discuss Staff Adjustment # 39 which increases this expense by $506.

A. Previously in my testimony, I discussed the effect that the approved Stipulation Agreement in DW 08-070 has on plant assets and accumulated depreciation in the instant docket. Schedule 2c of Attachment JPL-1 shows that the Stipulation Agreement approved in DW 08-070 will increase the annual depreciation expense recognized on these 2008 and 2009 plant additions from $6,565 (Column 3) to $7,071 (Column 9), or $506.

Q. Please discuss Staff Adjustment # 40 which reduces test year Depreciation Expense by $17,956.

A. In response to Staff Data Request 2-7, LRWC indicated that during the test year it charged a total of $17,956 in depreciation expense on plant assets that were also retired during the test year. Staff is proposing Adjustment # 40 in order to remove this portion of depreciation expense from pro-forma test year operating expenses.

Q. Please explain Staff Adjustment # 41 to reduce pro-forma Depreciation Expense by $7,268.

A. In its filing, LRWC submitted Depreciation Expense Adjustment # 13 in the amount of $7,268 in order to reflect the annual depreciation expense on certain 2010 plant additions that it was proposing to include in rate base. As previously stated, it is Staff's position that post-test year plant additions along with their related expenses should not be included in the Company's test year for the purpose of determining a permanent rate revenue requirement. Staff is proposing Adjustment # 41 to reverse the Company's pro-forma adjustment.

Q. Please explain Staff Adjustment # 42 to increase Amortization of Acquisition Adjustment by an amount of $1,364.

A. This entry is related to Staff Adjustment # 12 discussed previously, which stems from Staff Audit Issue # 5. The purpose of this adjustment is to correct test year amortization relative to LRWC's acquisition adjustments.

Q. Please explain Staff Adjustment # 43 which reduces LRWC's Amortization Expense by an amount of $1,841.

A. In its filing, the Company proposed Operating and Maintenance Expense Adjustment # 14 to increase pro-forma amortization expense by $1,841 for costs it incurred relative to capital infusions made by the shareholders as part of Commission docket DW 08-070. The Company explained that it incurred costs relative to obtaining approvals for a shareholder financing and step increases in docket DW 08-070. During the course of the proceeding the Company converted the proposed debt financing to additional paid-in capital. The Company charged the cost for obtaining it's financing in the amount of $18,405 to Capital Stock Expense. The Company is amortizing these costs over a ten year period and charging the annual expense to Miscellaneous Non-utility Expense; a below-the-line expense item. However, it is the Company's belief that these annual amortization charges should be reflected in customer rates. In its response to Staff Data Request 2-8, the Company justified the proposed inclusion of this annual amortization expense for ratemaking purposes by stating that the costs incurred in obtaining the equity infusion were the same as those incurred to obtain debt financing. Therefore, there should be a similar recovery of these costs through ratemaking as there is for costs incurred to obtain debt financings. Staff, however, disagrees with the Company with regard to this matter. Usually, there is very little to no cost incurred on the part of a closely held utility such as LRWC when it receives an equity infusion from its owners mainly because there is no requirement to obtain Commission approval for equity infusions. Ultimately, it was the Company's choice whether to classify the financing received from its shareholders as either a loan or additional paid-in capital. It would not be appropriate to require ratepayers to reimburse the Company for costs which ultimately proved to be unnecessary. Thus, Staff Adjustment # 43 reverses the Company's original pro-forma entry to include this amortization expense in operating expenses for ratemaking purposes.

Q. Finally, please explain Staff Adjustment # 45 to increase the Company's Real Estate Tax expense by an amount of $3,179.

A. During the test year, the Company incurred total state and municipal real estate tax expenses of $27,643. The Company's rate filing also contained Property Tax Adjustments # 15 and # 16 to further increase the test year real estate tax expense by a total of $1,649 to $29,292. In its responses to Staff Data Requests 2-9 and 2-10, the Company provided copies of its state and municipal real estate tax billings for the year 2010. In Schedule 3e of Attachment JPL-1, Staff summarizes these 2010 billings which total $32,471. When compared to the Company's pro-forma real estate tax expense, the resulting difference is $3,179. Therefore, Staff is proposing Adjustment # 45 in the amount of this difference in order to fully reflect the Company's 2010 real estate tax expense in the pro-forma test year.

VII. TAX EFFECT OF OPERATING INCOME AND EXPENSE ADJUSTMENTS

Q. Please briefly explain Schedule 3b of Attachment JPL-1.

A. This schedule calculates the income tax effect of the above described revenue and expense adjustments proposed by Staff. The combined impact of Staff Adjustments # 24 through # 45 is a net increase in the Company's pro-forma net operating income of $48,827. As discussed previously, Staff is proposing a marginal tax rate of 0.00% be applied for both state and federal income taxes. Further, Staff is proposing that the pro-forma state and federal income tax expense proposed in the Company's filing of $47,158 should be eliminated because it is not anticipated that LRWC will owe income taxes for the foreseeable future due to the availability of net operating loss carryforwards that can be used to offset future taxable income. LRWC will, however, still be subject to the New Hampshire Business Enterprise Tax (NHBET) based on its annual wages and interest expense. Therefore, Staff has determined an NHBET of $2,498 for the Company based on the pro-forma wage and interest expenses reflected in Staff's schedules. This amount is $128 higher than the NHBET reflected in the Company's filing of $2,370. The net adjustment to income tax expense proposed by Staff is a reduction of $47,030 which is indicated in Schedule 3 of Attachment JPL-1.

VIII. COMPUTATION OF PERMANENT RATES

Q. Please discuss Staff's computation of Permanent Rates contained in Schedule 4 of Attachment JPL-1.

A. Schedule 4 of Attachment JPL-1 shows a calculation of LRWC's various customer rates based on the permanent rate revenue requirement being proposed by Staff of $929,517. The calculation of the various customer rates are consistent with the methodologies employed in previous rate proceedings involving LRWC. The annual rate derived for the

Waterville Gateway Community (WGV) Pool is $1,382.19. This compares to an annual rate of $1,166.40 in effect prior to the implementation of rates in this docket and a temporary rate currently in effect of $1,372.73. The annual rate derived for non-metered customers is $575.05. This compares to an annual rate of $506.68 in effect prior to the implementation of rates in this docket and a temporary rate currently in effect of $570.30. The annual customer charge for metered customers derived by Staff is $446.99. This compares to an annual customer charge for metered customers of $373.23 in effect prior to the implementation of rates in this docket and a temporary rate customer charge for metered customers currently in effect of $443.39. The consumption charge for metered customers derived by Staff is $4.69 per ccf. This compares to a consumption charge for metered customers of $3.92 per ccf in effect prior to the implementation of rates in this docket and a temporary rate consumption charge for metered customers of $4.65 per ccf that is currently in effect.

Q. **Even though the percentage increase in the permanent rate revenue requirement being proposed by Staff is slightly less than that approved for temporary rates: 18.50% compared to 18.51%; the permanent rates derived by Staff appear to be slightly greater than temporary rates. Please explain.**

A. The reason for this is because of a difference in the pro-forma test year revenues used in deriving the respective percentage increases for temporary and permanent rates. For purposes of determining temporary rates, this revenue amount was $777,865. For purposes of determining permanent rates, this revenue amount is $784,397. As discussed previously, Staff needed to make three pro-forma adjustments to this revenue amount in order to more accurately reflect it for ratemaking purposes. Had the increase in revenues derived for temporary rates been applied to the pro-forma test year revenues for permanent rates, the result would have been an 18.35% increase ($143,964 ÷ $784,397) instead of an 18.51% increase.

IX. STAFF RECOMMENDATION FOR STEP ADJUSTMENT

Q. Please provide a brief summary of LRWC's original request for a step increase in this proceeding.

A. In addition to its request for an increase in permanent rates, the Company's original filing also contained a request for a step increase associated with the proposed purchase of the so-called "Mount Roberts property". This is an approximate 40 acre property owned by LRWC's shareholders and abuts the property on which the Paradise Shores system's water storage tank is located. It was the Company's intention to place supply wells on the Mount Roberts property. The combined cost of the land purchase and the installation of these wells was estimated at $1.48 million to be financed entirely by the shareholders as additional paid-in capital. The Company anticipated that this plant investment and associated expenses would further increase its revenue requirement by $243,146, or 31.74%. However, on March 11, 2011, the Company notified the Commission that it was withdrawing its request for a step increase associated with its purchase and use of the Mount Roberts property.

Q. Is Staff proposing a step increase for LRWC as part of this rate proceeding?

A. Yes. Staff is proposing a step increase in order to allow the Company to recover its investment and expenses associated with its 2010 plant additions. As previously explained in my testimony, the Company had included pro-forma adjustments in its permanent revenue proposal to reflect $192,000 in potential 2010 plant investments along with the associated operating expenses. Staff opposes the recovery of post-test year plant through permanent rates and made a number of rate base and operating expense adjustments to remove the impact of the 2010 plant investments from its permanent revenue requirement proposal. However, given the necessity of the 2010 plant investments made by the Company towards providing safe and adequate water service to its customers and given the fact that without the ability to immediately recover its 2010 plant investments, the Company will be immediately placed in an underearnings position at the conclusion of this rate proceeding, Staff is proposing this step increase in revenues. Staff is also proposing that the revenues derived from this step increase should not be included in the reconciliation of temporary and permanent rates which may occur subsequent to the approval of final rates in this proceeding.

Q. What is Staff's specific recommendation with regard to a step increase for LRWC?

A. As illustrated on Schedule 5 of Attachment JPL-1, Staff is proposing an additional increase in revenues from general customers of $9,247, or 1.18%. This is based on net plant additions to rate base of $97,405 and a rate of return on these additions of 6.58% which results in an increase in the Company's operating income requirement of $6,412. The net increase in the Company's operating expenses relative to depreciation and property taxes on the new plant is $2,835, which when added to the increase in the operating requirement results in the proposed step increase in revenues of $9,247. When this amount is combined with the proposed permanent increase in revenues of $145,120 presented previously, the result is a total revenue requirement of $938,764, representing a total increase of $154,367, or 19.68%.

Q. Please explain how the proposed rate of return of 6.58% was derived.

A. Staff's calculation of a weighted average rate of return relative to the proposed step adjustment is contained in Schedule 5a of Attachment JPL-1. In LRWC's financing docket, DW 11-021, it indicated that the financing for its 2010 plant additions will be provided from two sources. The first is a vehicle loan in the amount of $31,101 for the purchase of a dump truck. The remainder of the financing is in the form of equity capital from the Company's shareholders. Based on the total anticipated cost of the 2010 plant additions, Staff calculates that the amount of the equity infusion from shareholders is $70,170. The specifics of the vehicle loan described by the Company include a repayment term of five years and an interest rate of 7.89%. The cost rate that Staff is proposing be attached to the 2010 capital infusion by the shareholders is 6.00%. This is the same cost rate that Staff proposes should be attached to the shareholder loan converted to additional paid-in capital discussed previously in my testimony.

Q. Is Staff proposing that the Commission approve the proposed financing associated with the purchase of the dump truck?

A. Yes. Staff believes that the purchase this vehicle is reasonable and necessary in order to enable the Company to provide safe and adequate water service to its customers. Staff believes that the terms of the proposed financing are prudent and reasonable and will not adversely impact customer rates.

Q. Please explain Schedules 5b and 5c of Attachment JPL-1.

A. Both of these schedules were created by Staff based on LRWC's response to Staff Data Request 3-20 in which the Company provided data relative to its actual 2010 plant additions and retirements. Schedule 5a shows the total plant placed in service by the

Company during 2010 was $101,471. This schedule also indicates that the accumulated depreciation recognized on this plant during 2010 was $4,066 resulting in a net addition to the Company's rate base of $97,405. Schedule 5a also indicates that the annual depreciation expense associated with this new plant is $8,132. Schedule 5b shows that LRWC retired $47,605 in plant assets during 2010. The accumulated depreciation associated with these retired assets was $41,915 for a net book value of $5,690. Schedule 5b also shows that the annual depreciation expense on the retired assets was $5,817.

Q. Has this information been audited by the Commission Staff?

A. No. However, Staff believes that the information relative to LRWC's 2010 plant additions and retirements should be reviewed and verified by the Commission Audit Staff before they impact customer rates. At the conclusion of its examination, a report should be issued by the Audit Staff detailing its findings.

Q. Please explain Schedule 5d of Attachment JPL-1.

A. Schedule 5d to Attachment JPL-1 shows the property tax impact of the Company's plant additions and retirements during 2010. The net plant data are taken from Schedules 5a and 5b of Attachment JPL-1. Overall, for property tax purposes, the Company recognized a $57,079 increase in net plant in service. To this amount, Staff applied an assessment factor. This is derived by comparing the State's 2010 valuation for LRWC of $1,816,401 (included in the Company's response to Staff Data Request 2-9) to the net book value of its taxable plant indicated in its 2009 Annual Report to the Commission of $2,985,146. The result shows that the State's valuation of LRWC's taxable assets is only 60.85% of the net book value of these assets. Therefore, this same percentage is applied to the net increase in plant in service during 2010, resulting in an overall estimated valuation of $34,731. Staff used the 2010 tax rates appropriate to each system included in the Company's response to Staff Data Request 2-10. As a result, the overall net increase in property tax expense related to the 2010 plant additions and retirements is $520.

X. COMPUTATION OF RATES AFTER STEP ADJUSTMENT

Q. Please discuss Staff's computation of rates after its proposed step increase that is contained in Schedule 5e of Attachment JPL-1.

A. Schedule 5e of Attachment JPL-1 shows a calculation of LRWC's various customer rates based on the overall revenue requirement after the step increase being proposed by Staff of $938,764. The calculation of the various customer rates are consistent with the methodologies employed in previous rate proceedings involving LRWC. The annual rate derived for the Waterville Gateway Community (WGV) Pool is $1,395.94. This compares to an annual rate of $1,166.40 in effect prior to the implementation of rates in this docket and a temporary rate currently in effect of $1,372.73. The annual rate derived for non-metered customers is $580.77. This compares to an annual rate of $506.68 in effect prior to the implementation of rates in this docket and a temporary rate currently in effect of $570.30. The annual customer charge for metered customers derived by Staff is $451.44. This compares to an annual customer charge for metered customers of $373.23 in effect prior to the implementation of rates in this docket and a temporary rate customer charge for metered customers currently in effect of $443.39. The consumption charge for metered customers derived by Staff is $4.74 per ccf. This compares to a consumption charge for metered customers of $3.92 per ccf in effect prior to the implementation of rates in this docket and a temporary rate consumption charge for metered customers of $4.65 per ccf that is currently in effect.

Q. Does this conclude your direct testimony?

A. Yes.