DW 12-254

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Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

ORIGINAL
N.H.P.U.C. Case No. DW 12-254
Exhibit No. #2
Witness J. LaFlamme + Stephen P. St. Cyr
DO NOT REMOVE FROM FILE

October 5, 2012

RECEIVED
OCT 09 2012
NH PUBLIC UTILITIES COMMISSION

Debra Howland
Executive Director & Secretary
Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, N. H. 03301-2429

Dear Ms. Howland:

As indicated in Forest Edge Water Company's ("FEWC" or "Company") cover letter dated September 24, 2012, enclosed are the original and seven copies of the Company's **temporary** rate filing in DW 12-254. Additionally, a copy has been sent to the Consumer Advocate.

The temporary rate filing includes the following:
(1) Introduction
(2) Report of proposed changes
(3) Proposed tariff pages
(4) Prefiled direct testimony of Stephen P. St. Cyr
(5) Schedules (including adjustments)
(6) Proposed statement to be transmitted to each customer

The Company believes that it has met the filing requirements. It is our understanding that the Commissioners will address the matter of temporary rates as part of its order scheduling a prehearing conference and technical session. The Company looks forward to working with the parties. If the Commissioners and/or its Staff have any questions, please contact me at 207-423-0215.

Sincerely,

Stephen P. St. Cyr

Stephen P. St. Cyr

Forest Edge Water Company
before the
New Hampshire Public Utilities Commission

DW 12-254
Introduction for **Temporary Rates**

Forest Edge Water Company ("FEWC" or ACompany@) respectfully requests that the Commissioners accept this filing in support of its request for a **temporary** increase in rates so as to generate enough revenue to allow the Company to earn its rate of return and cover its operating expenses. If the **temporary** rate filing is accepted as submitted, the Company would realize an annual increase in revenues of $3,998. The **temporary** revenue increase of $3,998 would enable the Company to earn a 7.57% rate of return on its rate base of $36,548. The proposed, **temporary** quarterly rate amount for a customer would increase from $115.84 to $139.64, an increase of $23.80 or 20.54%.

In 2011 (the test year) the Company's net loss was $5,043. In 2012 the Company anticipates another net loss not only due to normal and reoccurring expenses, but also to additional expenses related to legal, engineering and auditing. The Company believes that such **temporary** revenues are needed to be in order for the Company to recover its costs and to earn a fair and reasonable return on its investment. The Company is requesting that the proposed rate be effective October 1, 2012.

With respect to the specific rate filing and its exhibits and supporting schedules, we have engaged the services of Stephen P. St. Cyr of St. Cyr & Associates to prepare the **temporary** rate filing and to draft and present testimony on the merits of the case. Enclosed is his testimony, the schedules and supporting documentation and the other rate filing requirements.

SPStCyr
10/05/12

## Forest Edge Water Company

## Report of Proposed Rate Changes - Water

| | | | |
|---|---|---|---|
| Utility | Forest Edge Water Company | Date Filed: | 9/24/2012 |
| Tariff No.: | | Effective Date: | 10/1/2012 |

| Rate of Class of Service | Effect of Change | Number of Customers | Authorized Present Revenue | Proposed Revenue | Proposed Change Amount | Proposed Change Percentage |
|---|---|---|---|---|---|---|
| Residential | $3,998 | 42 | $19,461 | $23,459 | $3,998 | 20.54% |
| Total Water | $3,998 | 42 | $19,461 | $23,459 | $3,998 | 20.54% |
| Other | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Total | $3,998 | 42 | $19,461 | $23,459 | $3,998 | 20.54% |
| Quarterly Customer Rate | | | $115.84 | $139.64 | $23.80 | 20.54% |

GENERAL SERVICE – UNMETERED

AVAILABILITY:

This service is applicable to all unmetered water service in the territory.

QUARTERLY RATES:

$139.64 payable quarterly beginning January 1, 2013 for 4th quarter water service.

TERMS OF PAYMENT:

Bills are rendered quarterly and are due and payable upon presentation. If payment is not made within 30 days from postmarked date, disconnect action may be taken in accordance with regulations of the N. H. Public Utilities Commission.

Issued:

Issued by: Nathaniel Sullivan

Effective: October 1, 2012

Title: President

Authorized by NHPUC Order No. … in DW 12-254 dated …

Hampstead Area Water Company

before the

New Hampshire Public Utilities Commission

DW 12-254

Direct Testimony of Stephen P. St. Cyr related to **Temporary Rates**

Q. Please state your name and address.

A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.

Q. Please state your present employment position and summarize your professional and educational background.

A. I am presently employed by St. Cyr & Associates, which primarily provides accounting, management, regulatory and tax services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water and sewer utilities among its cliental. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission ("PUC"). Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland.

Q. Is St. Cyr & Associates presently providing services to Forest Edge Water Company (ACompany@)?

A. Yes. St. Cyr & Associates assists the Company in its year end closing and preparation of financial statement and tax returns. St. Cyr & Associates assists the Company in various regulatory filings including financing of construction projects and adjusting rates. It has been engaged to prepare the various revenue / rates exhibits, supporting schedules and written testimony related to temporary rates.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's efforts to increase rates temporarily pending investigation and conclusion of the Company's request for permanent rates.

Q. What is the Company requesting for an increase in permanent revenues?

A. The Company is requesting an increase in its annual revenue of $8,056 or 41.40%.

Q. What is the Company requesting for an increase in temporary revenues?

A. The Company is requesting a temporary increase in its annual revenue of $3,998 or 20.54%.

Q. What has the Company provided to support and justify the proposed increase in temporary revenues?

A. The Company has modified its permanent rate case exhibits to support and justify the proposed increase in temporary revenues.

Q. How has the Company modified its permanent rate case exhibits?

A. The Company has eliminated 3 proforma adjustments to expense and reduce the related revenue requirement.

Q. What 3 proforma adjustments to expense were eliminated for temporary rate purposes?

A. The Company eliminated the proforma adjustments related to legal expense of $1,654, engineering expenses of $1,842 and auditing expenses of $500.

Q. Why did the Company eliminate these expenses for temporary rate purposes?

A. The Company eliminated these expenses because the legal and engineering costs were incurred in 2012 (after the test year) and the auditing expense has yet to be incurred.

Q. With the elimination of these proforma adjustments to expense, what does that leave the Company with?

A. It leaves the Company with test year expenses adjusted for what the Company believes expenses will be for both temporary and permanent rates.

Q. Did the Company make any other adjustments?

A. No. The Company made no adjustments to rate base, except for the change in cash working capital related to the change in operating expenses. As such, rate base reflects the Company's actual 2011 financial results. The Company made no adjustments to its rate of return. As such, the rate of return reflects the Company's actual 2011 financial results.

Q. Finally, why is the proposed temporary increase necessary?

A. In 2011 (the test year) the Company's net loss was $5,043. In 2012 the Company anticipates another net loss not only due to normal and reoccurring expenses, but to additional expenses related to legal, engineering and auditing.

Q. Are you familiar with the temporary rate filing of the Company and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related pages and attachments?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company with the assistance of Company personnel.

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2011.

Q. Would you summarize the schedule entitled AComputation of Revenue Deficiency for the Test Year ended December 31, 2011@?

A. Yes. This schedule summarizes the supporting schedules. The actual revenue deficiency for the test period amounts to ($5,201). It is based upon a 5 quarter average balance for 2011 of $37,676 as summarized in Schedule 3. The Company is utilizing its actual rate of return of 7.57% for the actual test year. The actual rate of return of 7.57%, when multiplied by the rate base of $37,676, results in an operating income requirement of $2,852. As shown on Schedule 1, the actual net operating income for the test period was ($2,349). The operating income requirement less the net operating income results in an operating income deficiency of ($5,201). The tax effect on the operating income deficiency is $0, resulting in a revenue deficiency of ($5,201).

The proforma revenue deficiency for the test year amounts to $0. The Company made no adjustments to its rate base, except for the change in cash working capital related to the change in operating expenses. The Company made no adjustments to its rate of return. As such, the rate of return of 7.57%, when multiplied by the rate base of $36,548, results in an operating income requirement of $2,767. The Company increased its revenue by $3,998 in order to allow the Company to recover its expenses and to earn a fair and reasonable return on its investment.

Q. Would you please summarize Schedule 1, AStatement of Income,@ for the twelve months ended December 31, 2011?

A. The first column (column b) of Schedule 1 shows the actual operating results of the Company from January 1, 2011 through December 31, 2011. The Company has filed its 2011 NHPUC Annual Report, which further supports the rate filing.

During the twelve months ended December 31, 2011, the Company operating revenues amounted to $23,836, an increase of $1,185 or 5%. The Company customer base has remained stable. The Company had 42 customers at December 31, 2011.

The Company=s operating expenses consists of operation and maintenance expenses, depreciation and taxes other than income. Total 2011 operating expenses amounted to $26,185 a decrease of $1,135 or 4%. Operation and maintenance expenses decreased $1,841, primarily due to decreases in outside services, partially offset by an increase in maintenance and purchased power expenses.

The Company=s net operating income (loss) amounted to ($2,349).

The Company reviewed a number of expense accounts in its preparation of the temporary rate filing. In its review, the Company determined that certain expenses needed to be adjusted in order to reflect what would be considered normal and reoccurring.

Q. Please explain each of the proforma adjustments made to revenue as shown on Schedule 1, in the second column (column c) and further supported on Schedule 1A.

A. The Company made two proforma adjustments to revenue.

Operating Revenues

1. Rate Case Surcharge

In 2011 operating revenues included the recovery of the difference between temporary rates and permanent rates and rate case expenditures from DW 08-160 for 3 quarters. The proforma adjustment eliminates the revenue related to the temporary / permanent difference and rate case expenditures.

2. Revenue

The proforma adjustment to revenue represents the additional revenue of $3,998 needed to recover the anticipated expenses and to earn a reasonable return on its rate base.

The total proforma adjustment to revenue amounts to ($377).

Q. Did the Company make any proforma adjustments to expenses?

A. Yes. The Company made a number of proforma adjustments to expenses as follows:

Operating Expenses

3. Purchased Power

In 2011 the test year had 13 months of purchase power expenses. As such, the Company has adjusted test year purchased power expenses by reducing purchased power for $252 for the additional month.

4. Maintenance of Structures

In 2011 the Company made various repairs to its pumping structures including patching, repairing and stuccoing water tank block building. Its total expenses were $3,020. The Company acknowledges that these specific expenses are of a one time nature, but believes that there has to be some dollars in rates to support maintenance of the buildings. As such, it believes that $1,007 ($3,020 / 3 years) is an appropriate annual amount.

5. Outside Services – Management, Bookkeeping and Accounting

In 2011 the Company incurred $3,936 and $4,164 for management / bookkeeping and accounting, respectively. Of the $4,164 of accounting expenses, certain expenses amounting to $1,183 were related to seeking a rate increase for the management / bookkeeping costs and extension of time to seek the previously approved step increase. As such, the Company has reduced its Outside Services by $1,183. Please note that the Company will seek the recovery of the $1,183 as part of rate case expenditures.

6. Outside Services – Legal Expenses

The Company eliminated this proforma adjustment for temporary rate purposes.

7. Outside Services – Mapping Expense

The Company eliminated this proforma adjustment for temporary rate purposes.

8. Outside Services – Audit

The Company eliminated this proforma adjustment for temporary rate purposes.

9. Franchise Requirements

In 2011 the Company incurred a late fee of $50 on its 2011 Annual Report filed with the Corporate Division of the Department of State. As such, the Company is eliminating the late fee from test year expenses.

10. Regulatory Commission Expenses

In 2011 the Company charged regulatory commission expenses $1,995 for approved rate case expenditures from DW 08-160. As such, the Company is eliminating the rate case expenditures from the test year.

The Company made no adjustments to depreciation and taxes other than income. The Company incurred no federal income or state business taxes.

The total proforma adjustments to operating expenses amount to ($5,493). The Company did review a number of other operating expenses, but decided that the expenses are reasonable and reoccurring, and provide a proper basis in which to establish temporary rates.

Q. Does column d of Schedule 1 represent the sum of the actual test year amounts (column b) plus the proforma adjustments (column c)?

A. Yes it does.

Q. Does column e and f represent the revenue and expenses for the twelve months ended December 31, 2010 and 2009, respectively?

A. Yes it does.

Q. Would you please explain Schedule 2 entitled ABalance Sheet@?

A. Yes. This schedule shows the year end balances reflected on the balance sheets of the Company for 2011, 2010 and 2009.

Utility Plant consists of 2 wells, 3 pump houses, 2 tanks, mains and service lines. The Company has no customer meters. At December 31, 2011 the Company had utility plant of $63,015. During 2011 the Company added no new plant to the water system. It's total assets amounted to $45,393.

The Company=s Equity Capital consists of $107,677 of other paid in capital and retained earnings of ($109,400), resulting in negative total capital of ($1,723). The Joseph E. Sullivan Revocable Trust of 1998 is the sole shareholder. The Company's other long term debt outstanding amounts to $35,608. The Kearsarge Building Company, a related party, holds the debt. The Company has $10,566 of miscellaneous current and accrued liabilities, most of which is unpaid bookkeeping and management costs. Total liabilities and equity amount to $45,393.

Q. Would you please explain Schedule 3 entitled ARate Base@?

A. Columns (b) - (f) show the actual balances of the rate base items as per the Company's general ledger. Column (g) shows the actual 5 quarter average balances, except for cash working capital, which reflects the cash working capital for 2011. Column (h) shows the 2011 proforma adjustments. Column (i) shows the proforma 2011 balances.

The rate base consists of Utility Plant, less Accumulated Depreciation, plus Cash Working Capital, Material & Supplies and Prepayments. The actual 5 quarter average rate base amounts to $37,676. The Company made no adjustments to rate base, except for the change in cash working capital related to the change in operating expenses. The adjustment to cash working capital amounts to ($1,129). Working capital is determined by utilizing a percentage that represents the lag between the time in which the Company bills its customers and receives the cash from such billing and the time that it pays for expenses to provide services. It is derived by applying 75/365 days or 20.55% to operating expenses. The computation of working capital is shown on schedule 3B. The proforma adjustments result in a cash working capital of $3,550.

Q. Would you please explain Schedule 4 entitled ARate of Return Information@?

A. The Company's overall rates of return are 7.57% and 7.57% for 2011 actual and 2011 proformed, respectively. It is derived from the weighted average cost rates associated with actual and proformed long term debt and equity. The Company=s capital structure consists of Equity and Debt Capital. The Company has no short term debt. Its Actual Equity Capital consists of $107,677 of Other Paid in Capital and Retained Earnings of ($109,400), resulting in negative total capital of ($1,723). The Company has $35,608 of long term debt at year end. The Company made no adjustments to the capital structure.

Q. Would you please explain Long Term Debt and the related cost of debt. At 12/31/11 the Company owes Kearsarge Building Company, a related party, $35,608. The loan has a 20 year term with an interest rate of 7%. The Company made no adjustments to the debt and its related costs.

Q. What is the Company using for the cost of common equity?

A. The Company is using the PUC determined cost of common equity of 9.75%.

Q. Please explain the Report of Proposed Rate Changes in the temporary rate filing.

A. The Report of Proposed Rate Changes shows the rate class, the effect of the revenue change, the number of customers, the authorized present revenue, the proposed revenue, the proposed change amount and percentage. The proposed change amount is $3,998 or 20.54%. On a per customer basis, the quarterly charge will increase $23.80, from $115.84 to $139.64.

Q. Is the Company proposing to change the rate design?

A. No. The Company has applied the proposed rate increase to all its customers.

Q. Is there anything else that you would like to discuss?

A. Yes, the Company has engaged the services of Stephen P. St. Cyr & Assoc. The Company has agreed to an hourly fee of $115.00 (plus out of pocket costs) for work performed in preparation of the temporary rate filing and pursuance of the temporary rate increase during the rate proceeding. The Company also utilized the services, i.e., management, bookkeeping, etc., of its affiliate, Atlantic Operating and Management Corp. in the preparation of the rate filing and anticipates using such services throughout the rate proceeding. The Company will make every effort to minimize its rate case expenses.

Q. Would you please summarize what the Company is requesting for temporary revenues?

A. Yes, the Company is requesting a temporary revenue increase of $3,998, effective October 1, 2012. The temporary revenue increase of $3,998 enables the Company to earn a 7.57% proforma rate of return on its investment, reflected in a proforma rate base of $36,548. The proposed temporary quarterly amount for a customer will increase from $115.84 to $139.64, an increase of $23.80 or 20.54%.

Q. Does this conclude your testimony?

A. Yes.

**Forest Edge Water Company**

**Computation of Revenue Deficiency**

**For the Test Year Ended December 31, 2011**

| | Actual | Proforma |
|---|---|---|
| Rate Base (Schedule 3) | $37,676 | $36,548 |
| Rate of Return (Schedule 4) | 7.57% | 7.57% |
| Operating Income Required | $2,852 | $2,767 |
| Net Operating Income (Schedule 1) | (2,349) | 2,767 |
| Operating Income Surplus (Deficiency) | ($5,201) | $0 |
| Tax Effect | | 0 |
| Revenue Surplus (Deficiency) | ($5,201) | $0 |

**Forest Edge Water Company** **Schedule 1**

**Statement of Income**

| Line No. | Account Title (Number) (a) | Actual 2011 Year End Balance (b) | Proforma Adjustments (c) | Proforma 2011 Year End Balance (d) | Actual 2010 Year End Balance (e) | Actual 2009 Year End Balance (f) |
|---|---|---|---|---|---|---|
| | **UTILITY OPERATING INCOME** | | | | | |
| 1 | Operating Revenues(400) | $ 23,836 | ($377) | $ 23,459 | $ 22,651 | $ 14,896 |
| 2 | Operating Expenses: | | | | | |
| 3 | Operating and Maintenance Expense (401) | 22,768 | (5,493) | 17,275 | 23,952 | 15,198 |
| 4 | Depreciation Expense (403) | 2,729 | | 2,729 | 2,689 | 2,648 |
| 5 | Amortization of Contribution in Aid of Construction (405) | | | | | |
| 6 | Amortization of Utility Plant Acquisition Adjustment (406) | | | | | |
| 7 | Amortization Expense-Other (407) | | | | | |
| 8 | Taxes Other Than Income (408.1-408.13) | 688 | | 688 | 679 | 837 |
| 9 | Income Taxes (409.1, 410.1, 411.1, 412.1) | | | | | |
| 10 | **Total Operating Expenses** | $ 26,185 | (5,493) | $ 20,692 | $ 27,320 | $ 18,683 |
| 11 | Net Operating Income (Loss) | (2,349) | 5,116 | 2,767 | (4,669) | (3,787) |
| 12 | **Other Income and Deductions** | | | | | |
| 13 | Interest and Dividend Income (419) | | | | | |
| 14 | Allow. for funds Used During Construction (420) | | | | | |
| 15 | Nonutility Income (421) | | | | | |
| 16 | Gains (Losses) From Disposition of Nonutility Property (421) | | | | | |
| 17 | Miscellaneous Nonutility Expenses (426) | | | | | |
| 18 | Interest Expense (427) | (2,694) | | (2,694) | (2,758) | (65) |
| 19 | Taxes Applicable to Other Than Income (409.2, 410.2, etc.) | | | | | |
| 20 | **Total Other Income and Deductions** | $ (2,694) | | $ (2,694) | $ (2,758) | $ (65) |
| 21 | **NET INCOME (LOSS)** | $ (5,043) | $ 5,116 | $ 73 | $ (7,427) | $ (3,852) |

**Forest Edge Water Company** **Schedule 1A**
**Statement of Income - Proforma Adjustments**

## Operating Revenues

| | | |
|---|---|---|
| 1 | 2011 Test Year Proforma | $19,461 |
| | 2011 Test Year Actual | 23,836 |
| | Proforma Adjustment | ($4,375) |

To adjust test year revenues for portion of revenue related to temporary / permanent and rate case recovery

| | | |
|---|---|---|
| 2 | 2011 Test Year Proforma | $23,459 |
| | 2011 Test Year Actual | 19,461 |
| | Proforma Adjustment | $3,998 |

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Total Proforma Adjustment to Operating Revenues **($377)**

## Operating Expenses:

3 Purchased Power

| | |
|---|---|
| 2011 Test Year Proforma | $3,318 |
| 2011 Test Year Actual | 3,570 |
| Proforma Adjustment | ($252) |

To adjust test year expense for an additional month of purchased power expense

4 Pumping Expenses - Maintenance of Structure

| | |
|---|---|
| 2011 Test Year Proforma | $1,007 |
| 2011 Test Year Actual | 3,020 |
| Proforma Adjustment | ($2,013) |

To adjust test year expenses to an estimate annual maintenance for the pump station structures ($3,020 / 3 years)

5 Outside Services - Management, Bookkeeping & Accounting

| | |
|---|---|
| 2011 Test Year Proforma | $6,917 |
| 2011 Test Year Actual | 8,100 |
| Proforma Adjustment | ($1,183) |

To adjust test year expenses for St. Cyr expenses related to step increase / mgmt exp / rate case

6 Outside Services - Legal

| | |
|---|---|
| 2011 Test Year Proforma | |
| 2011 Test Year Actual | 0 |
| Proforma Adjustment | $0 |

To adjust test year expenses for legal costs incurred in 2012 for customer compliant ($4,962 /3 years)

7 Outside Services - Engineering

| | |
|---|---|
| 2011 Test Year Proforma | |
| 2011 Test Year Actual | 0 |
| Proforma Adjustment | $0 |

To adjust test year expenses for engineering costs incurred in 2012 for mapping of the water system. ($5,525 / 3 years)

8 Outside Services - Audit

| | |
|---|---|
| 2011 Test Year Proforma | |
| 2011 Test Year Actual | 0 |
| Proforma Adjustment | $0 |

To adjust test year expenses for anticipated costs as a result of PUC audit ($1,500 / 3 years)

9 Franchise Requirements

| | |
|---|---|
| 2011 Test Year Proforma | $402 |
| 2011 Test Year Actual | 452 |
| Proforma Adjustment | ($50) |

To adjust test year expenses for the elimination of late fee associated with corporate annual report

10 Regulatory Commission Expenses

| | |
|---|---|
| 2011 Test Year Proforma | $100 |
| 2011 Test Year Actual | 2,095 |
| Proforma Adjustment | ($1,995) |

To adjust test year expenses for the elimination of rate case expenditure

| | |
|---|---|
| Total Proforma Adjustments to Operation and Maintenance Expenses | **($5,493)** |

Forest Edge Water Company

Schedule 2
Page 1 of 2

Balance Sheet - Assets and Other Debits

| Line No. | Account Title (Number) (a) | Actual 2011 Year End Balance (b) | Actual 2010 Year End Balance (c) | Actual 2009 Year End Balance (d) |
|---|---|---|---|---|
| | **UTILITY PLANT** | | | |
| 1 | Utility Plant (101-106) | $ 63,015 | $ 63,015 | $ 59,476 |
| 2 | Less: Accumulated Depr. and Amort. (108-110) | $ 32,971 | $ 30,242 | 27,553 |
| 3 | Net Plant | $ 30,044 | $ 32,773 | $ 31,923 |
| 4 | Utility Plant Acquisition Adj. (Net) (114-115) | | | |
| 5 | Total Net Utility Plant | $ 30,044 | $ 32,773 | $ 31,923 |
| | **OTHER PROPERTY AND INVESTMENTS** | | | |
| 6 | Nonutility Property (121) | | | |
| 7 | Less: Accumulated Depr. and Amort. (122) | | | |
| 8 | Net Nonutility Property | | | |
| 9 | Utility Investments (124) | | | |
| 10 | Depreciation Funds (127) | | | |
| 11 | Total Other Property & Investments | | | |
| | **CURRENT AND ACCRUED ASSETS** | | | |
| 12 | Cash (131) | 3,725 | 5,584 | 1,553 |
| 13 | Special Deposits (132) | | | |
| 14 | Accounts and Notes Receivable-Net (141-143) | 7,882 | 9,009 | 6,541 |
| 15 | Materials and Supplies (151) | | | |
| 16 | Prepayments (162-163) | 772 | 770 | 1,181 |
| 17 | Misc. Current and Accrued Assets (174) | | | |
| 18 | Total Current and Accrued Assets | $ 12,379 | $ 15,363 | $ 9,275 |
| | **DEFERRED DEBITS** | | | |
| 19 | Miscellaneous Deferred Debits (186) | 2,970 | 5,130 | 7,955 |
| 20 | Accumulated Deferred Income Taxes (190) | | | |
| 21 | Total Deferred Debits | $ 2,970 | $ 5,130 | $ 7,955 |
| | **TOTAL ASSETS AND OTHER DEBITS** | $ 45,393 | $ 53,266 | $ 49,153 |

Forest Edge Water Company

Schedule 2
Page 2 of 2

Balance Sheet - Equity Capital and Liabilities

| Line No. | Account Title (Number) (a) | Actual 2011 Year End Balance (b) | Actual 2010 Year End Balance (c) | Actual 2009 Year End Balance (d) |
|---|---|---|---|---|
| | **EQUITY CAPITAL** | | | |
| 1 | Common Stock Issued (201) | $ - | $ - | $ - |
| 2 | Preferred Stock Issued (204) | | | |
| 3 | Other Paid-In Capital (211) | 107,677 | 107,677 | 92,677 |
| 4 | Retained Earnings (217) | (109,400) | (104,357) | (96,929) |
| 5 | Proprietary Capital (proprietorships & partnerships) (218) | | | |
| 6 | Total Capital | $ (1,723) | $ 3,320 | $ (4,252) |
| | **LONG TERM DEBT** | | | |
| 7 | Other Long-Term Debt (224) | 35,608 | 36,563 | 52,454 |
| | **CURRENT AND ACCRUED LIABILITIES** | | | |
| 8 | Accounts Payable (231) | 942 | 2,098 | 156 |
| 9 | Notes Payable (232) | | | |
| 10 | Customer Deposits (235) | | | |
| 11 | Accrued Taxes (236) | - | - | 201 |
| 12 | Accrued Interest (237) | | | |
| 13 | Misc. Current and Accrued Liabilities (241) | 10,566 | 11,285 | 594 |
| 14 | Total Current and Accrued Liabilities | $ 11,508 | $ 13,383 | $ 951 |
| | **Other Liabilities** | | | |
| 15 | Advances for Construction (252) | | | |
| 16 | Other Deferred Credits (253) | | | |
| 17 | Accumulated Deferred Investment Tax Credit (255) | | | |
| 18 | Miscellaneous Operating Reserves (265) | | | |
| 19 | Contributions In Aid of Construction - Net (271-272) | | | |
| 20 | Accumulated Deferred Income Taxes (281-283) | | | |
| 21 | **TOTAL LIABILITIES AND CAPITAL** | $ 45,393 | $ 53,266 | $ 49,153 |

**Forest Edge Water Company** **Schedule 3**

**Rate Base**

| Line No. | Account Title (a) | Actual 12/31/2010 Balance (b) | Actual 3/31/2011 Balance © | Actual 6/30/2011 Balance (d) | Actual 9/30/2011 Balance (e) | Actual 12/31/2011 Balance (f) | Average 5 Quarters Balance (g) | Proforma Adjustments (h) | Proforma Year End Balance (i) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Plant in Service | $63,015 | $63,015 | $63,015 | $63,015 | $63,015 | $63,015 | $0 | $63,015 |
| 2 | Less: Accumulated Depreciation | 30,242 | 30,242 | 30,242 | 30,242 | 32,971 | 30,788 | 0 | 30,788 |
| 3 | Net Utility Plant | 32,773 | 32,773 | 32,773 | 32,773 | 30,044 | 32,227 | 0 | 32,227 |
| 4 | Cash Working Capital (1) | 4,922 | | | | 4,679 | 4,679 | (1,129) | 3,550 |
| 5 | Material and Supplies | 0 | 0 | 0 | 0 | 0 | 0 | | 0 |
| 6 | Prepayments | 770 | 770 | 770 | 770 | 772 | 770 | | 770 |
| 7 | Total Rate Base | $38,465 | $33,543 | $33,543 | $33,543 | $35,495 | $37,676 | ($1,129) | $36,548 |

(1) Cash Working Capital 5 Quarter Average is the same as the December 2011 Balance.

Forest Edge Water Company
Rate Base - Proforma Adjustments

Schedule 3A

## Plant

## Accumulated Depreciation

## Forest Edge Water Company

Schedule 3B

## Working Capital

| | 2011 Proforma Amount | 2011 Actual Amount | 2010 Actual Amount |
|---|---|---|---|
| Operating and Maintenance Expenses | $17,275 | $22,768 | $23,952 |
| 75/365 | 20.55% | 20.55% | 20.55% |
| Working Capital | $3,550 | $4,679 | $4,922 |

**Forest Edge Water Company**

**Rate of Return Information**



| Proforma Overall Rate of Return | | Component Ratio | | Component Cost Rate | | Weighted Average Cost Rate |
|---|---|---|---|---|---|---|
| Equity Capital | | -5.08% | | 9.75% | | 0.00% |
| Long Term Debt | | 105.08% | | 7.57% | | 7.57% |
| Total Capital | | 100.00% | | | | 7.57% |

| Actual Overall Rate of Return | | Component Ratio | | Component Cost Rate | | Weighted Average Cost Rate |
|---|---|---|---|---|---|---|
| Equity Capital | | -5.08% | | 9.75% | | 0.00% |
| Long Term Debt | | 105.08% | | 7.57% | | 7.57% |
| Total Capital | | 100.00% | | | | 7.57% |

| Capital Structure for 2011 - 2009 | 2011 Proforma | | 2011 Amounts | | 2010 Amounts | | 2009 Amounts |
|---|---|---|---|---|---|---|---|
| Common Stock | $ - | | $ - | | $ - | | $ - |
| Other Paid in Capital | 107,677 | | 107,677 | | 107,677 | | 92,677 |
| Retained Earnings | (109,400) | | (109,400) | | (104,357) | | (96,929) |
| Total Equity | $ (1,723) | | $ (1,723) | | $ 3,320 | | $ (4,252) |
| Long Term Debt | $35,608 | | $35,608 | | $ 36,563 | | $ 52,454 |
| Total Capital | $ 33,885 | | $ 33,885 | | $ 39,883 | | $ 48,202 |

| Capital Structure Ratios for 2011 - 2009 | 2011 Ratios | | 2011 Ratios | | 2010 Ratios | | 2009 Ratios |
|---|---|---|---|---|---|---|---|
| Common Stock | 0.00% | | 0.00% | | 0.00% | | 0.00% |
| Other Paid in Capital | 317.77% | | 317.77% | | 269.98% | | 192.27% |
| Retained Earnings | -322.86% | | -322.86% | | -261.66% | | -201.09% |
| Total Equity | -5.08% | | -5.08% | | 8.32% | | -8.82% |
| Long Term Debt | 105.08% | | 105.08% | | 91.68% | | 108.82% |
| Total Capital | 100.00% | | 100.00% | | 100.00% | | 100.00% |

| **Long Term Debt** | 2011 Prof Amount | | 2011 Actual Amount | | 2010 Actual Amount | | 2009 Actual Amount |
|---|---|---|---|---|---|---|---|
| Kearsarge Building Co. | $35,608 | | $35,608 | | $36,563 | | $52,454 |
| Total Long Term Debt | $35,608 | | $35,608 | | $36,563 | | $52,454 |

| **Proforma Cost of Debt** | 2011 Prof Amount | | Interest Rate | Interest Expense | Amortization of Fin Costs | Total Interest | Cost Rate |
|---|---|---|---|---|---|---|---|
| Kearsarge Building Co. | $35,608 | | 7.00% | $2,529 | $165 | $2,694 | 7.57% |
| Total Cost of Debt | $35,608 | | | $2,529 | $165 | $2,694 | 7.57% |

| **Actual Cost of Debt** | 2011 Act Amount | | Interest Rate | Interest Expense | Amortization of Fin Costs | Total Interest | Cost Rate |
|---|---|---|---|---|---|---|---|
| Kearsarge Building Co. | $35,608 | | 7.00% | $2,529 | $165 | $2,694 | 7.57% |
| Total Cost of Debt | $35,608 | | | $2,529 | $165 | $2,694 | 7.57% |

| **Cost of Common Equity Capital** |
|---|
| The Company is utilizing the Commission determined cost of common equity of 9.75%. |

Forest Edge Water Company
before the
New Hampshire Public Utilities Commission
DW 08-160
Proposed Statement to Customer

October 5, 2012

Name
Address

Dear Customer,

On September 24, 2012 Forest Edge Water Company ("FEWC" or "Company") requested the New Hampshire Public Utilities Commission's ("NHPUC") approval of an increase in rates to pay for operating expenses and to pay the outstanding debt. If the rate filing is accepted as submitted, the Company would realize an annual increase in permanent revenues of $8,056 effective October 1, 2012. The proposed quarterly rate for a customer would increase from $115.84 to $163.79, an increase of $47.95 or 41.40%.

Pending investigation of the proposed, permanent revenues, on October 5, 2012 the Company requests that the Commissioners grant its request for a **temporary** increase in rates so as to generate enough revenue to allow the Company to earn its rate of return and cover its operating expenses. If the **temporary** rate filing is accepted as submitted, the Company would realize an annual increase in revenues of $3,998. The **temporary** revenue increase of $3,998 would enable the Company to earn a 7.57% rate of return on its rate base of $36,548. The proposed, **temporary** quarterly rate amount for a customer would increase from $115.84 to $139.64, an increase of $23.80 or 20.54%.

In 2011 (the test year) the Company's net loss was $5,043. In 2012 the Company anticipates another net loss not only due to normal and reoccurring expenses, but also additional expenses related to legal, engineering and auditing. The Company believes that such **temporary** revenues are need to be in order for the Company to recover its costs and to earn a fair and reasonable return on its investment. The Company is requesting that the proposed rate be effective October 1, 2012.

The temporary and permanent rate increases will be subject to review and ultimate approval by the NHPUC. Customers are welcome to submit written comments to the Commission at New Hampshire Public Utilities Commission, 21 South Fruit Street, Suite 10, Concord, N. H. 03301-2429 or via email at puc@puc.nh.gov. If you have any questions or comments, please contact me at 603-356-5736.

Sincerely,

Nathaniel Sullivan