

**Stephen P. St. Cyr & Associates**

17 Sky Oaks Drive  
Biddeford, Me. 04005  
207-423-0215  
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December 28, 2017

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

Re: DW 15-209, Lakes Region Water Company – Second Step Adjustment

Dear Ms. Howland:

Please note below IV. Commission Analysis and Decision, B. Second Step Adjustment approved by the Commission in Order # 25,969 dated November 28, 2016 in DW 15-209.

**B. Second Step Adjustment**

The Settling Parties propose that Lakes Region be permitted to request a second step adjustment in order to provide a return, and to recover associated depreciation expenses and applicable taxes on two pending capital projects. The total costs of the two projects is anticipated to be \$401,000 resulting in an estimated increase in lakes Region's revenue requirement of \$22,903, or an additional 2.20 percent.

The Settling Parties agreed that lakes Region shall use debt financing from CoBank ACB, subject to Commission approval under RSA 369:1 *et seq.* to complete these two projects. The Settling Parties also recognize that the Company may use some additional equity financing to maintain compliance with CoBank loan requirement. ... The Settling Parties also propose that Lakes Region shall submit its filing for a second step increase with the Commission by no later than December 31, 2017. ... The Commission finds that granting Lakes Region permission to file for a second step adjustment under these circumstances is reasonable and approves such.

As such, enclosed are the original and six copies of Step Adjustment #2: 2016 – 2017 Projects. The schedules support a total plant addition of \$404,569, a rate of return of 6.53%, a step increase amount of \$27,016 or 2.59%.

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The Company respectfully requests that the Staff of the Commission review the calculation of the step adjustment. The Company also respectfully requests that the Commission issue an order approving the step adjustment.

If you, the Commission Staff and/or the Commissioners have any questions or comments, please call me at 207-423-0215 or email me at stephenpstcyr@yahoo.com.

Sincerely,

A handwritten signature in black ink that reads "Stephen P. St. Cyr". The signature is written in a cursive style with a horizontal line extending to the left.

Stephen P. St. Cyr

CC: Tom Mason  
Leah Valladares

**DW 15-209 / DW 15-422**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF STEP ADJUSTMENT**

<b>Account</b>	<b>Captain Lovewell Ln Main / Svc Replacement Project (Sch 2)</b>	<b>Paradise Dr Main / Svc Replacement Project (Sch 3)</b>	<b>Total</b>
331 Transmission & Distribution Mains	\$ 114,256	\$ 128,710	\$ 242,966
333 Services	53,567	108,036	161,603
Total Plant Additions	167,823	236,746	404,569
Less: 1/2 Year Depreciation	(1,812)	(2,638)	(4,450)
Net Plant Additions	166,011	234,108	400,119
Rate of Return (Schedule 1a)	x 6.53% x	x 6.53% x	x 6.53%
<b>Increase in Net Operating Income Requirement</b>	<b>10,838</b>	<b>15,284</b>	<b>26,122</b>
Add: Annual Depreciation Expense	3,624	5,275	8,899
Annual Property Tax Expense	3,637	2,564	6,201
<b>Increase in Revenue Requirement</b>	<b>\$ 18,100</b>	<b>\$ 23,123</b>	<b>\$ 41,223</b>
Less: Increase in POASI Special Contract (Schedule 5a)			(14,207)
<b>Step Increase</b>			<b>\$ 27,016</b>
<b>Actual Water Revenues from General Customers (Att JPL-1 / Sch 3)</b>			<b>\$ 1,043,143</b>
<b>% Increase in Annual Water Revenues from General Customers</b>			<b>2.59%</b>

DW 15-209 / DW 15-422  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS  
RATE OF RETURN

Dockets DW 15-209 / DW 15-422  
Lakes Region Water Company, Inc.  
Settlement Agreement  
12/27/2017

Weighted Average Annual Cost Rate	Annual Cost Rate	Total Annual Cost of Debt/Cash	Annual Amortization of Finance Cost	Annual Interest	Weighted Average	Amount
6.53%	4.93%	\$ 13,014	\$ 67 (b)	\$ 4,134 (a)	4.85%	\$ 85,228
3.22%	4.90%	\$ 8,814	\$ 95 (b)	\$ 8,719 (a)	4.85%	\$ 179,772
	4.91%	\$ 162	\$ 162	\$ 12,853	65.50%	\$ 265,000
3.31%	9.60% (c)				34.50%	\$ 139,569
					100.00%	\$ 404,569
						Total

(a) Interest rates on Cobank loan reflects a 60 basis point per annum reduction effective 1/1/18 relative to the Co's participation in Cobank's Patronage Program. (5.45% - 0.60% = 4.85%)

(b) Calculation of projected amortization of finance costs based on Co's response to Tech 5-4: Estimated 2016 Cobank Financing Costs: Cobank Origination Fee

Legal Fees  
Consultant Fees  
Total

Loan Term (Years)	Annual Amortization of Finance Costs	Allocation of Ann'l Amort	% of Total	Project Cost
20	\$ 162	\$ -	0.00%	\$ -
20	3,233	↑		
	2,219			
	1,014			
	\$ -			
		Ann'l Amort	Total	Cost
		Step Adj		
		67	41.48%	167,823
		95	58.52%	236,746
		\$ 162	100.00%	\$ 404,569

Allocation of Annual Amortization Cost amongst 2016 Projects:  
2016-17 Dockham Shores Purchase / Upgrades  
2016-17 Capt Lovewell Ln Main & Service Replacement Project  
2016-17 Paradise Drive Main & Service Replacement Project  
Total

(c) Cost of Equity approved in DW 15-209.

DW 15-209 / DW 15-422  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**

**ANALYSIS OF PROJECTED CAPTAIN LOVEWELL LANE MAIN AND SERVICE REPLACEMENT PROJECT**

<u>Account</u>	<u>Description</u>	<u>Estimated Cost</u>	<u>Depreciation Rate</u>	<u>Annual Depreciation Expense</u>	<u>One-Half Year Depreciation</u>	<u>Combined Property Tax Rate (c)</u>	<u>Tax Value as % of Net Book (Att JPL-1; Sch 12)</u>	<u>Annual Property Tax Expense</u>
331	Transmission & Distribution Mains	\$ 114,256	2.00%	\$ 2,285	\$ 1,143	\$ 25.07	87.40%	\$ 2,478
333	Services	53,567	2.50%	1,339	670	25.07	87.40%	1,159
<b>Total</b>		<b>\$ 167,823</b>		<b>\$ 3,624</b>	<b>\$ 1,812</b>			<b>\$ 3,637</b>
(c) 2017 Municipal Tax Rate - Ossipee, NH		\$ 18.47						
State Utility Tax Rate		6.60						
Combined Property Tax Rate		<u>\$ 25.07</u>						

DW 15-209 / DW 15-422  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**ANALYSIS OF PROJECTED PARADISE DRIVE MAIN AND SERVICE REPLACEMENT PROJECT**

<u>Account</u>	<u>Description</u>	<u>Estimated Cost</u>	<u>Depreciation Rate</u>	<u>Annual Depreciation Expense</u>	<u>One-Half Year Depreciation</u>	<u>Combined Property Tax Rate (d)</u>	<u>Tax Value as % of Net Book (Att JPL-1; Sch 12)</u>	<u>Annual Property Tax Expense</u>
331	Transmission & Distribution Mains	\$ 128,710	2.00%	\$ 2,574	\$ 1,287	\$ 12.53	87.40%	\$ 1,395
333	Services	108,036	2.50%	2,701	1,350	12.53	87.40%	1,168
<b>Total</b>		<b><u>\$ 236,746</u></b>		<b><u>\$ 5,275</u></b>	<b><u>\$ 2,638</u></b>			<b><u>\$ 2,564</u></b>
(d) 2017 Municipal Tax Rate - Moultonborough, NH		\$ 5.93						
State Utility Tax Rate		6.60						
Combined Property Tax Rate		<b><u>\$ 12.53</u></b>						

**DW 15-209 / DW 15-422**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**SUMMARY**

	<b>Volume Basis</b>	<b>Customer Allocation Basis</b>	<b>POASI</b>	<b>Non - POASI</b>	<b>TOTAL</b>
Revenue Requirement after Tax Effect (Schedule 5b)	\$ 15,284	\$ -	\$ -	\$ -	\$ 15,284
Total Operating Expenses (Schedule 5d)	7,035	-	-	-	7,035
Less: Other Operating Revenues	-	-	-	-	-
Total Revenues to be Collected via All Water Rates	\$ 22,320	\$ -	\$ -	\$ -	\$ 22,320
Revenues Specific to POASI Special Contract	\$ 22,320	\$ -	\$ -		\$ 22,320
	<b>CCF Usage</b>	<b>Customers</b>	<b>Customers</b>		
POASI	17,220	1	1		
Paradise Shores	9,833	392	-		
Total	27,053	393	1		
Rates	\$ 0.83 /ccf	\$ - /cust	\$ - POASI only		
Revenues:					
POASI	\$ 14,207	\$ -	\$ -	\$ -	\$ 14,207
Paradise Shores	8,113	-	-	-	8,113
Total	\$ 22,320	\$ -	\$ -	\$ -	\$ 22,320

DW 15-209 / DW 15-422  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**REVENUE REQUIREMENT**

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
<b>NET PLANT IN RATE BASE:</b>					
Total Utility Plant in Service (Schedule 5c)	236,746	-	-	-	236,746
Less: Accumulated Depreciation (Schedule 5c)	(2,638)	-	-	-	(2,638)
Net Utility Plant in Service	234,108	-	-	-	234,108
Contributions in Aid of Construction (CIAC)	-	-	-	-	-
Less: Accumulated Amortization - CIAC	-	-	-	-	-
Net Contributions in Aid of Construction	-	-	-	-	-
<b>Net Utility Plant in Rate Base</b>	<b>234,108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234,108</b>
<b>WORKING CAPITAL IN RATE BASE:</b>					
Materials and Supplies	-	-	-	-	-
Prepayments - Other	-	-	-	-	-
Prepaid Taxes	-	-	-	-	-
Deferred Assets	-	-	-	-	-
Customer Deposits	-	-	-	-	-
Accumulated Deferred Income Taxes - Depreciation	-	-	-	-	-
Subtotal	-	-	-	-	-
Calculation of Cash Working Capital:					
Operation & Maintenance Expenses	-	-	-	-	-
Cash Working Capital % (75 days ÷ 365 days)	x 20.55%	x 20.55%	x 20.55%	x 20.55%	x 20.55%
Cash Working Capital	-	-	-	-	-
Total Working Capital in Rate Base	-	-	-	-	-
<b>Total Rate Base</b>	<b>234,108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234,108</b>
Rate of Return @ Schedule 1a	x 6.53%	x 6.53%	x 6.53%	x 6.53%	x 6.53%
Revenue Requirement before Tax Effect	15,284	-	-	-	15,284
Income Tax Gross-up Factor @ 0.00%	-	-	-	-	-
<b>Revenue Requirement after Tax Effect</b>	<b>\$ 15,284</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,284</b>



DW 15-209 / DW 15-422  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**UTILITY PLANT IN SERVICE**

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
<b>UTILITY PLANT IN SERVICE:</b>					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains (Schedule 3)	236,746	-	-	-	236,746
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment	-	-	-	-	-
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Utility Plant in Service	<u>\$ 236,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,746</u>
<b>ACCUMULATED DEPRECIATION:</b>					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains (Schedule 3)	(2,638)	-	-	-	(2,638)
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment	-	-	-	-	-
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Accumulated Depreciation	<u>\$ (2,638)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,638)</u>

DW 15-209 / DW 15-422  
 LAKES REGION WATER COMPANY, INC.  
 STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS  
 CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT  
 UTILITY PLANT IN SERVICE

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
<b>DEPRECIATION EXPENSE:</b>					
303.20 Land and Land Rights	-	-	-	-	-
304.20 Structures and Improvements	-	-	-	-	-
307.20 Wells and Springs	-	-	-	-	-
311.20 Pumping Equipment	-	-	-	-	-
339.21 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.22 Other Miscellaneous Equipment (Common)	-	-	-	-	-
339.30 Other Miscellaneous Equipment (Treatment)	-	-	-	-	-
330.40 Distribution Reservoirs and Standpipes	-	-	-	-	-
331.40 Transmission and Distribution Mains (Schedule 3)	5,275	-	-	-	5,275
333.40 Services	-	-	-	-	-
334.40 Meters and Meter Installation	-	-	-	-	-
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common)	-	-	-	-	-
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements	-	-	-	-	-
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction	-	-	-	-	-
341.52 Transportation Equipment - Pickups	-	-	-	-	-
343.50 Tools, Shop, and Garage Equipment	-	-	-	-	-
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment	-	-	-	-	-
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Depreciation Expense	<u>\$ 5,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,275</u>

**DW 15-209 / DW 15-422**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**OPERATING EXPENSES**

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
<b>OPERATING EXPENSES:</b>					
Operation & Maintenance Expenses:					
Source of Supply Expenses	-	-	-	-	-
Pumping Expenses	-	-	-	-	-
Water Treatment Expenses	-	-	-	-	-
Transmission and Distribution Expenses	-	-	-	-	-
Customer Account Expense	-	-	-	-	-
Subtotal	-	-	-	-	-
Administrative and General Expenses:					
Salary and Wages Expense:					
Superintendent (1.0)	-	-	-	-	-
Field Personnel (3.0)	-	-	-	-	-
Office (0.5)	-	-	-	-	-
Office (2.5)	-	-	-	-	-
Total Salary and Wages Expense	-	-	-	-	-
Outside Professional Services	-	-	-	-	-
Outside Professional Services - Discount	-	-	-	-	-
Property Insurance Expense (Allocated by Utility Plant)	-	-	-	-	-
Group Insurance (Allocated by Wages)	-	-	-	-	-
Pension Plan	-	-	-	-	-
Rate Case Expenses	-	-	-	-	-
Regulatory Commission Expense	-	-	-	-	-
Materials	-	-	-	-	-
Contracted Services	-	-	-	-	-
Heat / Electric Expense - Office	-	-	-	-	-
Telephone Expense	-	-	-	-	-
Office Expense	-	-	-	-	-
Dig Safe Expense	-	-	-	-	-
Bank Charges Expense	-	-	-	-	-
Operating Permits Expense	-	-	-	-	-
Total Administrative and General Expenses	-	-	-	-	-
Total Operation & Maintenance Expenses	-	-	-	-	-
Depreciation Expense (Schedule 5c)	5,275	-	-	-	5,275
Amortization of Contributions in Aid of Construction	-	-	-	-	-
Amortization Expense - Other	-	-	-	-	-
Payroll Tax Expense (Allocated by Wages)	-	-	-	-	-
Property Tax Expense (e)	1,760	-	-	-	1,760
Total Operating Expenses	<u>\$ 7,035</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,035</u>

DW 15-209 / DW 15-422  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT # 2: 2016 - 2017 PROJECTS**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**OPERATING EXPENSES**

	Volume Basis	Customer Allocation Basis	POASI	Non - POASI	TOTAL
<b>(e) Property Tax Expense:</b>					
<u>Direct RE Taxes - Paradise Shores:</u>					
Paradise Drive Main/Svc Replacement Project (net)				\$ 234,108	
Tax Assessment Value as a % of Taxable Utility Plant per Book			x	87.40%	
Tax Assessment Value of Land Purchase				204,611	
Municipal Tax Rate (Moultonborough)			x	\$0.00593	\$ 1,213
<u>Indirect State RE Taxes:</u>					
Capt Lovewell Ln Main/Svc Replacement Project (net)		\$ 166,011			
Paradise Drive Main/Svc Replacement Project (net)		234,108	400,119		
Tax Assessment Value as a % of Taxable Utility Plant per Book			x	87.40%	
Tax Assessment Value of Land Purchase				349,704	
State Tax Rate			x	\$0.00660	2,308
Total Indirect RE Taxes				2,308	
Paradise Shores Allocation %				x 23.70%	547
Property Tax Expense - Paradise Shores					\$ 1,760