STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DW 15-209

In the Matter of:
Lakes Region Water Company, Inc.
Petition for Temporary Rates

Direct Testimony

of

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

December 2, 2015

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New Hampshire Public Utilities Commission

Lakes Region Water Company, Inc.

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Petition for Temporary Rates

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 temporary rate revenue requirement for Lakes Region Water Company, Inc. (LRWC or the Company).

II. STAFF RECOMMENDATION FOR TEMPORARY RATES

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

A. On August 5, 2015, LRWC filed a petition, including testimony and supporting schedules, requesting approval of a permanent rate increase designed to generate additional revenues from general metered and unmetered customers of $398,274, representing a 38.18% increase. On August 17, 2015, LRWC filed a petition for temporary rates requesting an increase in revenues on a temporary basis from general metered and unmetered customers of $221,487, or 21.23%, on a service rendered basis as of the date specified for publication of the Commission's Order of Notice.[1] The Company utilized a 2014 test year in making its determinations.

Q. Is LRWC currently earning below its last approved rate of return?

A. Yes. The Company's last approved rate of return from its previous rate proceeding in DW 10-141 is 8.425%.[2] In its response to Staff Data Request 1-2, the Company provided calculations showing that its earned rates of return over the past three years have been below that which was last approved by the Commission. For the year 2012, the Company calculated an earned rate of return of 7.35%. For the year 2013, the Company calculated an earned rate of return of 8.08%. For the test year 2014, the Company calculated an earned rate of return of 3.64%.

Q. Please describe Staff's overall approach in deriving its recommendation for temporary rates in this case.

A. The guidance for the establishment of temporary rates provided by RSA 378:27 states, "that such temporary rates shall be sufficient to yield not less than a reasonable return on the cost of the property of the utility used and useful in the public service less accrued depreciation, as shown by the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports." Staff considers both the Company's permanent rate increase request of 38.18% as well as its temporary rate increase request of 21.23% in this docket to be very significant, especially

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[1] Commission Order No. 25,809 (9/4/15) required LRWC to mail a copy of the Order of Notice to all current and known prospective customers as well as the Clerks in each town where the Company provides service by no later than 9/14/15. LRWC filed an Affidavit of Publication stating that it had met this requirement as of 9/14/15.

when considering LRWC's other recent increases in customer rates. For example, in DW 10-141, the Commission ultimately approved an overall increase of 29.04% in the Company's revenue requirement.[3] Further, encompassed within both its permanent and temporary rate requests, the Company has proposed the application of certain unconventional ratemaking methodologies. These include the global use of a year-end rate base rather than the traditional test-year average rate base and the inclusion of an Allowance for Funds Used During Construction (AFUDC) which was incurred by the Company's shareholder rather than the Company itself. Even at this point in the overall rate proceeding, Staff feels that it cannot support the application of these methodologies in the determination of either temporary or permanent rates. As such, it would be fair to say that Staff's review of LRWC's temporary rate filing in this case was of a more comprehensive nature than what would normally be the case in a typical temporary rate proceeding. Consequently, Staff's temporary rate recommendation described in the testimony which follows contains upwards of fifty adjustments. However, given the magnitude of both the Company's temporary and permanent rate requests, Staff feels that it is especially important to provide a temporary rate recommendation in this case that not only provides a reasonable return for the utility but which is also not unnecessarily burdensome to the utility's customers.

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

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[2] See Commission Order No. 25,391 (7/13/12).
[3] Commission Order No. 25,391 (7/13/12) authorized a combined permanent and step revenue increase of $168,220. Commission Order No. 25,496 (4/22/13) authorized an additional annual increase in the Company's revenue

year and reported on a number of issues in its Final Audit Report dated November 13, 2015 (Final Audit Report). A copy of the Final Audit Report is attached to my testimony as Attachment JPL-2. A number of issues contained within that report have been incorporated into Staff's recommendation for a temporary rate revenue requirement. Most notably, Staff became aware of a number of charges recorded by the Company during the test year which were either misclassified as operating expenses or were of a non-recurring nature.

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

A. As illustrated on Schedule 1 of Attachment JPL-1, Staff is recommending a temporary rate revenue requirement for LRWC's general water customers of $1,122,608. This represents an increase of $79,465, or 7.62%, over LRWC's test year water revenues from general customers of $1,043,143. Staff's recommended revenue requirement is calculated utilizing a total rate base of $2,568,890 which is computed on Schedule 2 of Attachment JPL-1 and provides for an overall rate of return of 8.01% which is calculated on Schedule 1a of Attachment JPL-1. The overall effective tax rate reflected in Staff's calculations is 39.61% as illustrated on Schedule 1b of Attachment JPL-1.

Q. You indicate that the temporary rate 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

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requirement of $59,546 in order to compensate a utility manager, for a combined overall revenue increase of the Property Owners Association at Suissevale, Inc. (POASI).[4] 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.

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

Q. Please explain how Staff derived a rate of return of 8.01%.

A. In its temporary rate filing, LRWC calculated a weighted average rate of return of 7.97%. Staff, for the most part, utilized the Company's rate of return calculations in Schedules 1a and 1ai of Attachment JPL-1. However, Staff recorded an adjustment to decrease additional paid-in capital by $62,954 on Schedule 1a (Footnote **a**) relative to Staff Adjustments # 2 and # 3 (Schedule 2a). Staff also recorded an adjustment to increase the Company's cost of debt by $2,123 on Schedule 1ai (Footnote **b**) relative to Staff Adjustment # 22 (Schedule 3a). These adjustments, which will be explained in more detail later in my testimony, have the overall effect of increasing the rate of return proposed by the Company of 7.97% to 8.01%.

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

Q. Please explain why Staff is using an effective tax rate of 39.61% in its schedules.

$227,766, or 29.04%, over pro-forma test year revenues of $784,397.

[4] The special contract was approved by Commission Order No. 24,693 (10/31/06) in Docket DW 06-133, *Re Property Owners Association at Suissevale, Inc.*

A. In LRWC's temporary rate filing, the Company calculated an effective tax rate of 39.61%. For purposes of its temporary rate recommendation, Staff calculated essentially the same effective tax rate on Schedule 1b of Attachment JPL-1.

V. RATE BASE

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

A. Columns 1 through 3 summarize the Company's proposed rate base of $2,765,328 as contained in its temporary rate filing. Columns 4 and 5 provide a summary of Staff's adjustments to the Company's proposed rate base. Staff's adjustments, which result in a net decrease of $196,438, are further detailed on Schedule 2a of Attachment JPL-1. Column 6 presents Staff's rate base recommendation for temporary rates of $2,568,890.

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 temporary rate filing. Please explain.

A. Yes. The Company proposed a number of adjustments in order to reflect a year-end rate base valuation rather than the traditionally accepted rate making methodology of test year average rate base. As such, it was necessary for Staff to make the following adjustments in order to reverse those rate base adjustments proposed by LRWC in its temporary rate filing:

Staff Adj	Co Adj	Rate Base Component	Amount
# 1	# 1	Utility Plant in Service	$(237,058)
# 5	# 4	Accumulated Depreciation	$ 66,520

# 10	# 8	Accum Amort – Acquisition Adj	$(4,228)
# 11	# 13	CIAC	$ 8,377
# 12	# 14	Accum Amort – CIAC	$(8,668)
# 15	# 9	Materials and Supplies	$ 9,680
# 16	# 10	Prepaid Other	$(3,494)
# 17	# 11	Prepaid Property Taxes	$ 52
# 19	# 12	Deferred Taxes	$ 17,336
		Net Reduction in Rate Base	**$(151,483)**

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 also 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 the valuation of 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 # 5 which increases accumulated depreciation by $18,279 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 # 6, reduces this amount by half, or $9,140, in order to reflect an average test year methodology. Similarly, the Company's Rate Base Adjustment # 15 increases accumulated amortization of CIAC by $218 to reflect a full year of amortization on 2014 CIAC additions. Staff Adjustment # 13 decreases this amount by half, or $109, to reflect an average test year methodology.

Q. Please explain Staff Adjustments # 2 and # 7 which remove AFUDC as well as the related accumulated depreciation from test year rate base.

A. During the test year, the Company recorded fixed plant that it acquired from its sole shareholder, Barbara G. Mason, in the amount of $271,932. This plant consists of wells and related equipment located on the so-called Mt. Roberts property in Moultonborough, New Hampshire, which is also owned by the Company's shareholder. Both this transaction as well as a future transaction to acquire the entire Mt. Roberts parcel is explained in detail within the direct testimonies of Thomas A. Mason, President of LRWC, and Stephen P. St. Cyr, consultant to LRWC, which accompany the Company's permanent rate filing in this docket. As explained in those testimonies, the Company's purpose in acquiring these assets is to increase its source of supply to both its Paradise Shores' general customers as well as POASI, with which it has a special contract. The shareholder's costs for constructing the Mt. Roberts' wells and equipment are detailed in Exhibit 6 to Mr. Mason's testimony and include $216,112 in direct construction costs as well as an Allowance for Funds Used During Construction (AFUDC) in the amount of $55,820 for a total cost of $271,932. On April 1, 2014, the Company's shareholder transferred the Mt. Roberts' wells and equipment assets to LRWC, resulting in an increase in both the Company's fixed plant accounts as well as its additional paid-in capital account by the amount of the shareholder's recorded cost of construction in the amount of $271,932. However, based upon its initial review of this transaction, Staff believes that the inclusion of AFUDC in the total cost of construction and ultimately rate base is inappropriate for a number of reasons. Chief among which is because LRWC neither borrowed money nor employed its own funds for the construction of these assets. Rather, LRWC's shareholder funded the construction. As such, Staff believes that an AFUDC component for inclusion in rate base should not apply in this circumstance. Therefore, Staff proposes that the AFUDC component in the amount of $55,820 as well the associated accumulated depreciation in the amount of $1,563 should be eliminated from the Company's rate base. However, since the Mt. Roberts' wells and equipment were only recorded on the Company's books as of April 1 of the test year, only 9 months out of the 13-month rate base average would be affected. Therefore, Staff Adjustment # 2 reduces utility plant in service by $38,645 and Staff Adjustment # 7 reduces accumulated depreciation by $1,082 for a net rate base reduction of $37,563.

Q. **Please explain Staff Adjustments # 3, # 4, # 8, and # 9 which pertain to further corrections to utility plant in service and accumulated depreciation resulting from the Staff audit.**

A. These adjustments pertain to Staff Audit Issues # 12 and # 18 located on pages 76 and 85, respectively, of the Final Audit Report (Attachment JPL-2) relative to certain fixed asset additions which occurred at the Mt. Roberts property. In both instances, the Staff Auditors recommend adjustments to net plant in service. Therefore, based on Staff Audit Issue # 12, Staff Adjustment # 3 to utility plant in service and Staff Adjustment # 8 to accumulated depreciation increase the Company's average rate base by a net amount of $201. Additionally, based on Staff Audit Issue # 18, Staff Adjustment # 4 to utility plant in service and Staff Adjustment # 9 to accumulated depreciation reduce the Company's average rate base by a net amount of $2,511.

Q. Previously, you stated that Staff Adjustments # 2 and # 3 were related to an adjustment to additional paid-in capital appearing in Staff's weighted average cost of capital calculation on Schedule 1a. Please explain.

A. Previously I discussed the transaction whereby LRWC's shareholder transferred certain well and other equipment assets to the Company in the amount of $271,932, which included AFUDC of $55,820 which was eliminated by Staff Adjustment # 2. Additionally, costs in the amount of $7,134, which were included in Staff Audit Issue # 12, were eliminated from fixed plant as part of Staff Adjustment # 3. Therefore, in conjunction with these eliminations by Staff to the Company's fixed plant, Staff is also eliminating the associated increase in additional paid-in capital that was recorded by the Company in the amount of $62,954 ($55,820 + $7,134).

Q. Please explain Staff Adjustment # 14 which reduces cash working capital by $19,297.

A. This adjustment is based on the net decrease in total operation & maintenance (O & M) expenses of $107,594 as proposed by Staff in Column 4 of Schedule 3 of Attachment JPL-1. There are two components in this calculation because, according to LRWC's tariff, the customers in 16 of the Company's 17 divisions are billed in arrears, while the customers in the remaining division (Tamworth) are billed in advance. Therefore, Staff calculates distinct cash working capital components for the Tamworth system and for the other LRWC systems. Staff's calculations result in a $19,297 decrease in the cash working capital component of rate base.

Q. Please discuss Staff Adjustment # 18 which records a deferred debit in the amount of $5,184.

A. This adjustment is based on Staff Audit Issue # 25 on page 93 of the Final Audit Report (Attachment JPL-2), which includes a finding by the Audit Staff relative to an inventory reduction which the Company expensed during the test year. This transaction, totaling $12,959, stems from the Company's compliance with The Reduction of Lead in Drinking Water Act of 2011. The legislation provides for a three-year window of compliance commencing in 2014. Staff deemed the transaction recorded by the Company during the test year to be a non-recurring expense. The Company concurred with that conclusion, but also requested an amortization of that expense over a 3 to 5 year timeframe. Therefore, Staff made provision for a 5-year amortization period for this expense for purposes of setting temporary rates. Staff reduced the recognized test year expense by $10,367 (Staff Adjustments # 31 and # 39) and records the test year average of the related deferred debit in Staff Adjustment # 18.

VI. <u>NET OPERATING INCOME</u>

Q. Please discuss the operating income statement for LRWC presented on Schedule 3 of Attachment JPL-1.

A. Columns 1 through 3 summarize the Company's pro-forma test year net operating income of $220,442 as proposed in its temporary rate filing. Columns 4 and 5 summarize Staff's adjustments to the Company's net operating income proposal. Staff's adjustments, which are described in further detail in Schedules 3a and 3b of Attachment JPL-1, result in a net tax-effected increase of $71,166 in the Company's proposed pro-forma net operating income. Column 6 presents Staff's resulting proposed test year pro-forma net operating income in the amount of $291,608 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 $205,841.

Q. Please explain Staff Adjustment # 20 which increases other operating revenues by $200.

A. This adjustment stems from Staff Audit Issue # 31 on page 100 of the Final Audit Report (Attachment JPL-2). It concerns billings for services that occurred during November of the test year which were not recorded by the Company. The Company concurred with the audit finding and therefore Adjustment # 20 increases the Company's test year revenues by the appropriate amount.

Q. Turning our attention now to O & M expenses, please explain Staff Adjustments # 21 and # 22, which pertain to the Company's test year general legal expenses.

A. In its temporary rate filing, the Company included a pro-forma adjustment (Expense Adjustment # 7) to normalize its general legal expenses through an averaging of such costs for the years 2012, 2013, and 2014. The Company's adjustment resulted in a proposed reduction in its test year general legal expense by $13,317. During discovery, Staff requested copies of the Company's general legal expense invoices for the normalization period (2012 – 2014) as well as for 2010 and 2011 (Staff Data Request 1-18). However, in its response, the Company objected to Staff's request; citing the confidential nature of the legal services described within those invoices. During a subsequent technical session, the Company and Staff reached a compromise whereby the

Company agreed to withdraw its original pro-forma entry and make available copies of its test year legal invoices for review. Staff Adjustment # 21 records the agreed upon reversal of the Company's original Expense Adjustment # 7, thereby increasing test year general legal expense by $13,317. In its response to Tech 1-6a, the Company made available for review copies of its test year legal invoices. However, Staff's review of these invoices revealed that a number of the charges recorded by the Company as general legal expenses actually pertained to the Company's 2014 financing with CoBank[5] as well as the Mt. Roberts property transactions presented in the instant docket. The legal costs which pertain to the CoBank financing total $16,860, while the Mt. Roberts related charges total $2,403, for a combined amount of $19,263. Staff is of the view that these charges do not constitute general legal expenses that should be included in test year operating expenses for ratemaking, but rather are costs that should be deferred and amortized over an appropriate period of time. With regard to the CoBank financing costs, Staff believes that these should be amortized over the lives of the respective loans and has reflected such in Schedule 1ai of Attachment JPL-1 (See Footnote (b)). With regard to the Mt Roberts costs, Staff believes that these should be included in the Company's rate case expenses relative to this docket which are being accumulated for recovery after the conclusion of this rate proceeding. Therefore, Staff Adjustment # 22 reduces test year O & M expenses by the total amount of the legal costs in question of $19,263.

Q. Please discuss Staff Adjustment # 23 which reverses the Company's Expense Adjustment # 9.

[5] The Commission approved this financing in Order No. 25,655 (4/29/14) in Docket DW 13-335.

A. In its filing, the Company proposed an adjustment to reflect the amortization of previously deferred costs stemming from Commission Docket DW 07-105. Commission Order No. 25,454 (1/17/13) approved the deferral of those costs as well as their subsequent collection through rates, reasoning that such costs pertained to improving the Company's financial and operational stability and viability. Specifically, the Commission's order states, "*. . . that Lakes Region shall be permitted to recover these costs through customer rates, **beginning at the date of a final order in its next filed full rate case**, via a five-year amortization . . .*" (Emphasis Added). As such, Staff believes that the collection of these costs should not be included in temporary rates but rather should commence at the conclusion of this rate proceeding, per the Commission's order. Therefore, Staff Adjustment # 23 reverses the Company's proposed amortization of these costs in the amount of $9,980 for purposes of temporary rates.

Q. Please explain Staff Adjustment # 24 to reduce test year insurance expense by $28,000.

A. In its response to Staff Data Request # 40, the Company indicated that because of changes made in its medical and liability insurance coverage during 2015 it is conservatively estimating an annual savings of approximately $28,000. Staff Adjustment # 24 is recorded to reflect these anticipated savings in the pro-forma test year.

Q. In its permanent rate filing, the Company proposed two adjustments to reflect a 4% wage increase for its employees as well as the establishment of a pension plan for its employees. Please explain why Staff did not include these adjustments in its schedules for the purpose of determining temporary rates.

A. For purposes of permanent rates, the Company has proposed Expense Adjustment # 2 in the amount of $15,270 in order to reflect a 4% wage increase for its employees that occurred during 2015. Additionally, the Company is proposing Expense Adjustment # 3 in the amount of $16,000 relative to the creation of a pension plan for its employees. Staff did not include these adjustments in its temporary rate recommendation, however, due to concerns that it has regarding the Company's continued significant use of outside consultants despite its hiring of a Utility Manager during 2013. The cost of that Utility Manager was specifically approved for inclusion in customer rates by the Commission.[6] Staff wishes to investigate these matters further during the remaining course of this rate proceeding before it provides a recommendation relative to the Company's overall levels of compensation for both its employees and consultants. Therefore, for purposes of temporary rates, Staff did not include either of these permanent rate adjustments proposed by the Company.

Q. Please discuss Staff Adjustments # 25 and # 26 which together reduce the Company's computer support expense by a combined amount of $4,442.

A. In his permanent rate testimony (page 3; lines 12-14), Mr. Mason explained that the Company was transitioning to a new accounting software system which is anticipated to improve the Company's overall accounting function as well as reduce its administrative, accounting, and regulatory costs. In Tech 1-1, Staff asked the Company a series of questions concerning this transition process and its impact on test year expenses. In its response to Tech 1-1b, the Company indicated that in addition to computer support charges paid to its current software provider, the Company also paid $1,776 in computer

[6] See Commission Order No. 25,496 (4/22/13) in Docket No.'s DW 07-105, DW 10-043, and DW 10-141.

support fees to the new software provider. Staff reasons that since the Company was still primarily relying upon its current accounting system during the test year, the computer support fees that were paid relative to the new accounting system should be eliminated from test year operating expenses and possibly recorded as a deferred asset. Therefore, Staff Adjustment # 25 reduces test year operating expenses by $1,776. In its response to Tech 1-1e, the Company estimated a reduction of $2,666 in its annual computer support expense as a result of the installation of the new accounting system. Staff Adjustment # 26 is recorded to reflect these anticipated savings in the pro-forma test year.

Q. Please discuss Staff Adjustment # 27 to decrease regulatory commission expense by $16,943.

A. In Tech 1-8, the Company was asked to provide an explanation for a $19,582 increase in its regulatory commission expense account from 2013 to 2014. In response, the Company indicated that a portion of the increase was attributable to a write-off of expenses related to its Petition for Emergency Rates in DW 13-041.[7] Page 47 of the Final Audit Report (Attachment JPL-2) indicates that the amount written-off by the Company was $16,943. Aside from the fact that the Company failed to meet its burden of proof relative to its need for emergency rates in that case, Staff also deems this cost to be a non-recurring item that should be eliminated from test year operating expenses for purposes of ratemaking. Therefore, Staff is proposing Staff Adjustment # 27 to reduce test year operating expenses by $16,943.

Q. The remaining pro-forma adjustments to O & M expense appear to be derived from the Staff Audit. Could you please discuss?

A. That is correct. Staff Adjustments # 28 through # 35 are based on the Final Audit Report (Attachment JPL-2). Some of these adjustments have been explained previously in relation to Staff's pro-forma adjustments to rate base. For instance, Staff Adjustment # 28 based on Staff Audit Issue # 17 (page 84 of the Final Audit Report) results in an expense reduction of $15,000 and is also related to Staff Audit Issue # 12 (page 76 of the Final Audit Report) and Staff Adjustments # 3 and # 8; Staff Adjustment # 29 based upon Staff Audit Issue # 18 (page 85 of the Final Audit Report) results in an increase in expenses of $4,030 and is related to Staff Adjustments # 4 and # 9; and, Staff Adjustment # 31 based upon Staff Audit Issue # 25 (page 93 of the Final Audit Report) results in an expense reduction of $12,959 and is related to Staff Adjustment # 18. The remaining O & M expense adjustments relate to the Final Audit Report, as follows:

StaffAdj #	Issue #, Pg #	Account	Adj Amount
# 30	# 23, Pg 90	Bad Debt Expense	$(9,000)
# 32	# 25, Pg 93	Office Expense	$(5,454)
# 33	# 26, Pg 95	Accounting & Computer Support Expenses	$(2,145)
# 34	# 27, Pg 96	Employee Pensions & Benefits Expense	$(285)
# 35	# 33, Pg 102	Salary & Wage Expense	$(1,470)
		Total	**$(18,354)**

Q. Please discuss Staff Adjustments # 36 through # 38 to depreciation expense.

A. Staff Adjustment # 36 reduces test year depreciation expense by $1,563 relative to the depreciation recorded on the AFUDC component of the 2014 Mt. Roberts additions that was eliminated by Staff Adjustments # 2 and # 7 discussed previously in my testimony.

[7] The Commission denied LRWC's Emergency Rate Petition in Order No. 25,516 (6/4/13) as well as the Company's

Staff Adjustment # 37 results in a $20 increase in test year depreciation expense relative to the rate base adjustments proposed in Staff Audit Issue # 12 (page 76 of the Final Audit Report) and discussed previously in my testimony concerning Staff Adjustments # 3 and # 8. Staff Adjustment # 38 reduces test year depreciation expense by an amount of $403 relative to Staff Audit Issue # 18 (page 85 of the Final Audit Report) discussed previously regarding Staff Adjustments # 4 and # 9.

Q. Please explain Staff Adjustment # 39 to increase amortization expense – other by $2,592.

A. This adjustment stems from Staff Audit Issue # 25 (page 93 of the Final Audit Report) regarding the reclassification of the 'No Lead Rule' inventory write-off from O & M expenses to a deferred debit and amortized over 5 years. This particular adjustment records the proposed annual amortization expense of $2,592 ($12,959 ÷ 5 years) which was previously discussed in relation to Staff Adjustments # 18 and # 31.

Q. Please discuss Staff Adjustments # 40 through # 43 to other tax expense.

A. In its temporary rate filing, the Company proposed various adjustments to its test year operating expenses in order to reflect the anticipated increase in property taxes resulting from its 2014 plant additions. The purpose of Staff Adjustments # 40 through # 43 is to adjust test year property tax expense relative to various fixed plant adjustments that have been made by Staff and discussed previously. Staff Adjustments # 40 and # 41 reduce test year state and municipal property tax expense, respectively, by a combined amount of $721 relative to the elimination of the AFUDC component of the Mt. Roberts equipment addition in Staff Adjustment # 2. Staff Adjustment # 42 increases state and

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Motion for Rehearing in Order No. 25,557 (8/2/13).

municipal property tax expense by the amount of $4 relative to the fixed plant adjustment made in Staff Adjustment # 3. Finally, Staff Adjustment # 43 reduces state and municipal property tax expense by the amount of $52 relative to the fixed plant adjustment resulting from Staff Adjustment # 4.

Q. Please explain Staff Adjustments # 44 and # 45 to other tax expense.

A. Staff Adjustment # 44 is based upon Staff Audit Issue # 25 (page 93 of the Final Audit Report). The purpose of the adjustment is to reduce test year property tax expense by $263 relative to taxes paid on a parcel of property which was sold by the Company during the test year. Staff Adjustment # 45 is related to Staff Adjustment # 35 which reduced test year wages by $1,470 based on Staff Audit Issue # 33 (page 102 of the Final Audit Report). Staff Adjustment # 45 reduces test year payroll tax expense by $112 relative to the wage adjustment recorded in Staff Adjustment # 35.

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. It also records adjustments to the Company's test year state and federal income tax expense stemming from Staff Audit Issue # 34 which is detailed on page 103 of the Final Audit Report (Attachment JPL-2). The combined impact of Staff Adjustments # 20 through # 45 is a net increase in the Company's pro-forma net operating income of $108,293. Thus, Staff calculates a $9,205 increase in state income tax based upon the Company's current New Hampshire Business Profits Tax (NHBPT) rate of 8.50%. Additionally, Staff has recorded a test year decrease in state income tax expense of $2,966 per Staff Audit Issue # 34. As a result the net increase in net operating income subject to federal income tax is $102,055 ($108,293 - $9,205 + $2,966). From this, Staff calculates an increase in federal income tax expense of $34,699 based on the Company's present marginal federal income tax rate of 34%. Additionally, Staff has recorded a test year decrease in federal income tax expense of $3,810 per Staff Audit Issue # 34. Therefore, the net tax-effected increase in pro-forma operating income being proposed by Staff is $71,166 ($102,055 - $34,699 + $3,810).

VIII. COMPUTATION OF TEMPORARY RATES

Q. Please discuss Staff's computation of temporary rates for customers contained in Schedule 4 of Attachment JPL-1.

A. Schedule 4 of Attachment JPL-1 presents a calculation of LRWC's customer rates based on the temporary rate revenue requirement proposed by Staff of $1,122,608. This calculation of customer rates is consistent with that employed in previous rate proceedings involving LRWC. The annual rate derived for the Waterville Gateway Community (WGV) Pool is $1,563.43, or $390.86 per quarter. This compares to the annual rate currently in effect of $1,452.76, or $363.19 per quarter. The annual rate derived for non-metered customers is $673.30, or $168.33 per quarter. This compares to the annual rate currently in effect of $625.56, or $156.39 per quarter. The annual customer charge for metered customers derived by Staff is $529.59, or $132.40 per quarter. This compares to the annual customer charge currently in effect for metered customers of $494.32, or $123.58 per quarter. The consumption charge for metered customers derived by Staff is $5.15 per ccf. This compares to the consumption charge for metered customers currently in effect of $4.81 per ccf. Staff has also included a report of proposed rate changes based upon Staff's recommendations on Schedule 5 of Attachment JPL-1.

Q. Does this conclude your direct testimony?

A. Yes.