

LRWC Dockham Shores Water System

Computation of Revenue Deficiency for Permanent Rates

For the Test Year Ended December 31, 2018

	<u>Actual</u>	<u>Proforma</u>
Rate Base (Schedule 3)	\$ 141,098	\$ 394,897
Rate of Return (Schedule 4)	<u>1.04%</u>	<u>5.56%</u>
Operating Income Required	\$ 1,468	\$ 21,957
Annualized Net Operating Income (Schedule 1)	<u>(15,003)</u>	<u>21,957</u>
Operating Income (Deficiency) Surplus	\$ (16,471)	\$ (0)
Tax Effect		_____ -
Revenue Surplus (Deficiency)	<u>\$ (16,471)</u>	<u>\$ (0)</u>

LRWC Dockham Shores Water System

Statement of Income

Line No.	Account Title (Number) (a)	Actual 2018 (b)	Proforma Adjustments (c)	Proforma 2018 (d)
	UTILITY OPERATING INCOME			
1	Operating Revenues(400)	\$ 36,840	\$ 51,868	\$ 88,708
2	Operating Expenses:			
3	Operating and Maintenance Expense (401)	30,737	6,565	37,302
4	Depreciation Expense (403)	14,400	6,429	20,829
5	Amortization of Contribution in Aid of Construction (405)	(116)		(116)
6	Amortization of Utility Plant Acquisition Adjustment (406)	(1,504)		(1,504)
7	Amortization Expense-Other (407)		1,914	1,914
8	Taxes Other Than Income (408.1-408.13)	3,851	-	3,851
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	4,475	-	4,475
10	Total Operating Expenses	\$ 51,843	\$ 14,908	\$ 66,751
11	Net Operating Income (Loss)	(15,003)	36,960	21,957
12	Other Income and Deductions			
13	Interest and Dividend Income (419)	755		755
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)	(78)		(78)
18	Interest Expense (427)	(1,836)		(1,836)
19	Taxes Applicable to Other Than Income (409.2, 410.2, etc.)			
20	Total Other Income and Deductions	\$ (1,159)	\$ -	\$ (1,159)
21	NET INCOME (LOSS)	\$ (16,162)	\$ 36,960	\$ 20,798

**LRWC Dockham Shores Water System
Statement of Income - Proforma Adjustments**

Schedule 1A
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Operating Revenues

1	Proforma 2018	\$ 43,460
	Actual 2018	<u>36,840</u>
	Proforma Adjustment	<u>\$ 6,620</u>

To adjust test year revenues for the additional revenue approved by PUC Order No. 26,272 in DW 16-619 authorizing step adjustment.

2	Proforma 2018	\$ 88,708
	Proforma 2018	<u>43,460</u>
	Proforma Adjustment	<u>\$ 45,248</u>

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 Adjustment to Operating Revenues **\$ 51,868**

Operation and Maintenance Expenses

3	<u>PUC Audit</u>	
	Proforma 2018	\$ 1,000
	Actual 2018	<u>0</u>
	Proforma Adjustment	<u>\$ 1,000</u>

To adjust test year expenses for costs associated with PUC audit of test year expenses (\$3,000 / 3 years)

4	<u>Source of Supply Operation Wages</u>	
	Proforma 2018	\$ 1,500
	Actual 2018	<u>-</u>
	Proforma Adjustment	<u>\$ 1,500</u>

To adjust test year expenses for estimated wages anticipated going forward.

5 Treatment Expenses

Proforma 2018	\$ 3,260
Actual 2018	<u>1,195</u>
Proforma Adjustment	<u>\$ 2,065</u>

To adjust test year expenses for estimated increase in chemicals, testing, etc.

6 T&D Maintenance

Proforma 2018	\$ 2,369
Actual 2018	<u>369</u>
Proforma Adjustment	<u>\$ 2,000</u>

To adjust test year expenses for estimated increase in maintenance of mains, services & meters

7 A & G Expenses

Proforma 2018	\$ 14,935
Actual 2018	<u>14,935</u>
Proforma Adjustment	<u>\$ -</u>

To adjust test year expenses for estimated increase in ...

Total Proforma Adjustments to Operation and Maintenance Expense **\$ 6,565**

Depreciation Expenses

8 Proforma 2018	\$ 20,829
Actual 2018	<u>14,400</u>
Proforma Adjustment	<u>\$ 6,429</u>

To record increase in depreciation expenses

Amortization of Organizational Costs

9	Proforma 2018	\$ 1,914
	Actual 2018	<u>0</u>
	Proforma Adjustment	<u>\$ 1,914</u>

To record amortization of organization costs (\$38,273 / 20 years)

Taxes other than Income Taxes

State Utility Property Taxes

10	Proforma 2018	\$ 762
	Actual 2018	<u>762</u>
	Proforma Adjustment	\$ -

Town of Gilford Property Taxes

11	Proforma 2018	\$ 1,248
	Actual 2018	<u>1,248</u>
	Proforma Adjustment	\$ -

Income Taxes

Federal Income Taxes

12	Proforma 2018	\$ 639
	Actual 2018	<u>639</u>
	Proforma Adjustment	\$ -

State Business Taxes

13	Proforma 2018	\$ 86
	Actual 2018	<u>86</u>
	Proforma Adjustment	\$ -

To adjust test year expenses for the increase in state business taxes due to the increase in revenue. For additional support, please see schedule 5.

Total Proforma Adjustment to Income Taxes \$ -

Total Proforma Adjustment to Operating Expense \$ 14,908

LRWC Dockham Shores Water System

Schedule 1B

Income Tax Computation

	<u>Actual</u>	<u>Proforma</u>
Total Rate Base	\$141,098	\$394,897
Equity Component of Cost of Capital	<u>-0.45%</u>	<u>0.00%</u>
Operating Net Income Required	-\$635	\$0
Tax Multiplier (Schedule 5A)	<u>-236</u>	<u>0</u>
Income Required before Income Taxes	-\$871	\$0
Less: NH Business Profits Tax @ 7.7%	<u>-67</u>	<u>0</u>
Income subject to Federal Taxes	-\$804	\$0
Less: Federal Income Tax @ 21%	<u>-169</u>	<u>0</u>
Income after Income Taxes	<u>-\$635</u>	<u>\$0</u>

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Schedule 1C

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	7.70%
Federal Taxable Income	92.30%
Federal Income Tax Rate	21.00%
Effective Federal Income Tax Rate	19.38%
Add: NH Business Profit Tax	7.70%
Effective Tax Rate	27.08%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	27.08%
Percent Used as a Divisor in Determining the Revenue Requirement	72.92%
Tax Multiplier	37.14%

Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Ref Sch. (b)	12/31/2018 Balance (c)	12/31/2017 Balance (d)
	UTILITY PLANT			
1	Utility Plant (101-106)	F-6	\$ 345,165	\$ 178,860
2	Less: Accumulated Depr. and Amort. (108-110)	F-6	(6,429)	77,272
3	Net Plant		\$ 351,594	\$ 101,588
4	Utility Plant Acquisition Adj. (Net) (114-115)	F-7	(20,315)	(21,819)
5	Total Net Utility Plant		\$ 331,279	\$ 79,769
	OTHER PROPERTY AND INVESTMENTS			
6	Nonutility Property (121)	F-14		
7	Less: Accumulated Depr. and Amort. (122)	F-15		
8	Net Nonutility Property			
9	Investment in Associated Companies (123)	F-16		
11	Utility Investments (124)	F-16		
12	Other Investments	F-16		
13	Special Funds(126-128)	F-17		
14	Total Other Property & Investments		\$ -	\$ -
	CURRENT AND ACCRUED ASSETS			
16	Cash (131)			
17	Special Deposits (132)	F-18		
18	Other Special Deposits (133)	F-18		
19	Working Funds (134)			
20	Temporary Cash Investments (135)	F-16		
21	Accounts and Notes Receivable-Net (141-144)	F-19	7,955	9,361
22	Accounts Receivable from Assoc. Co. (145)	F-21		
23	Notes Receivable from Assoc. Co. (146)	F-21		
24	Materials and Supplies (151-153)	F-22		
25	Stores Expense (161)			
26	Prepayments-Other (162)	F-23	2,035	1,015
27	Prepaid Taxes (163)	F-38	1,776	1,157
28	Interest and Dividends Receivable (171)	F-24		
29	Rents Receivable (172)	F-24		
30	Accrued Utility Revenues (173)	F-24		
31	Misc. Current and Accrued Assets (174)	F-24		
32	Total Current and Accrued Assets		\$ 11,766	\$ 11,533
	DEFERRED DEBITS			
32	Unamortized Debt Discount & Expense (181) - Note 1	F-25		
33	Extraordinary Property Losses (182)	F-26		
34	Prelim. Survey & Investigation Charges (183)	F-27		
35	Clearing Accounts (184)			
36	Temporary Facilities (185)			
37	Miscellaneous Deferred Debits (186)	F-28	38,393	36,096
38	Research & Development Expenditures (187)	F-29		
39	Accumulated Deferred Income Taxes (190) - Note 2	F-30		
40	Total Deferred Debits		\$ 38,393	\$ 36,096
	TOTAL ASSETS AND OTHER DEBITS		\$ 381,438	\$ 127,398

Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	12/31/2018 Balance (c)	12/31/2017 Balance (d)
	EQUITY CAPITAL			
1	Common Stock Issued (201)	F-31		
2	Preferred Stock Issued (204)	F-31		
3	Capital Stock Subscribed (202,205)	F-32		
4	Stock Liability for Conversion (203, 206)	F-32		
5	Premium on Capital Stock (207)	F-31		
6	Installments Received On Capital Stock (208)	F-32		
7	Other Paid-In Capital (209,211)	F-33		
8	Discount on Capital Stock (212)	F-34		
9	Capital Stock Expense(213)	F-34		
10	Retained Earnings (214-215)	F-3	(5,297)	7,598
11	Reacquired Capital Stock (216)	F-31		
12	Total Equity Capital		\$ (5,297)	\$ 7,598
	LONG TERM DEBT			
13	Bonds (221)	F-35	128,986	133,892
14	Reacquired Bonds (222)	F-35		
15	Advances from Associated Companies (223)	F-35		
16	Other Long-Term Debt (224)	F-35		
17	Total Long-Term Debt - Note 1		\$ 128,986	\$ 133,892
	CURRENT AND ACCRUED LIABILITIES			
18	Accounts Payable (231)			
19	Notes Payable (232)	F-36	12,125	
20	Accounts Payable to Associated Co. (233)	F-37		
21	Notes Payable to Associated Co. (234)	F-37		
22	Customer Deposits (235)			
23	Accrued Taxes (236)	F-38		
24	Accrued Interest (237)			
25	Accrued Dividends (238)			
26	Matured Long-Term Debt (239)	F-39		
27	Matured Interest (240)	F-39		
28	Misc. Current and Accrued Liabilities (241)	F-39	243,676	(16,166)
29	Total Current and Accrued Liabilities		\$ 255,801	\$ (16,166)
	DEFERRED CREDITS			
30	Unamortized Premium on Debt (251)	F-25		
31	Advances for Construction (252)	F-40		
32	Other Deferred Credits (253)	F-41		
33	Accumulated Deferred Investment Tax Credits (255)	F-42		
34	Accumulated Deferred Income Taxes:			
35	Accelerated Amortization (281)	F-45		
36	Liberalized Depreciation (282) - Note 2	F-45		
37	Other (283)	F-45		
38	Total Deferred Credits		\$ -	\$ -
	OPERATING RESERVES			
39	Property Insurance Reserve (261)	F-44		
40	Injuries and Damages Reserve (262)	F-44		
41	Pensions and Benefits Reserves (263)	F-44		
42	Miscellaneous Operating Reserves (265)	F-44		
43	Total Operating Reserves		\$ -	\$ -
	CONTRIBUTIONS IN AID OF CONSTRUCTION			
44	Contributions In Aid of Construction (271)	F-46	5,200	5,200
45	Accumulated Amortization of C.I.A.C. (272)	F-46	3,252	3,126
46	Total Net C.I.A.C.		\$ 1,948	\$ 2,074
46	TOTAL EQUITY CAPITAL AND LIABILITIES		\$ 381,438	\$ 127,398

LRWC Dockham Shores Water System

Schedule 3

Rate Base

Line No.	Account Title (a)	December 2017 Balance (b)	March 2018 Balance (c)	June 2018 Balance (d)	September 2018 Balance (e)	December 2018 Balance (f)	5 Qtrs Avg 12/31/2018 Balance (g)	Proforma Adjustments (h)	Proforma Year End Balance (i)
1	Plant in Service	\$156,549	\$156,549	\$156,549	\$156,549	\$347,957	\$194,831	\$191,399	\$386,230
2	Less: Accumulated Depreciation	<u>77,273</u>	<u>78,294</u>	<u>79,827</u>	<u>81,360</u>	<u>(6,429)</u>	<u>62,065</u>	<u>(61,108)</u>	<u>957</u>
3	Total Net Utility Plant	79,276	78,255	76,722	75,189	354,386	132,766	252,508	385,273
4	Material and Supplies	0	0	0	0	0	-	-	-
5	Contribution in Aid of Construction	5,200	5,200	5,200	5,200	5,200	5,200		5,200
6	Accumulated Amortization of CIAC	(3,126)	(3,155)	(3,184)	(3,213)	(3,242)	(3,184)	(58)	(3,242)
7	Accumulated Deferred Income Taxes						-		-
8	Rate Base	81,350	80,300	78,738	77,176	356,344	134,782	252,450	387,231
9	Cash Working Capital (1)						6,317	1,349	7,666
10	Total Rate Base	<u>81,350</u>	<u>80,300</u>	<u>78,738</u>	<u>77,176</u>	<u>356,344</u>	<u>141,098</u>	<u>253,799</u>	<u>394,897</u>
11	(1) Cash Working Capital 5 Quarter 12/31/18 Balance is the same as the 12/31/18 Balance.								

**LRWC Dockham Shores Water System
Rate Base - Proforma Adjustments**

Schedule 3A

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Plant in Service

1	12/31/18 Balance	\$	347,957
	5 Quarters Average 12/30/18 Balance		<u>194,831</u>
	Proforma Adjustment	\$	<u>153,126</u>

To adjust test year 5 quarters average plant in service to fully reflect 12/31/18 additions to plant

2	Proforma 12/31/18 Balance with organization costs	\$	386,230
	Proforma 12/31/18 Balance		<u>347,957</u>
	Proforma Adjustment	\$	<u>38,273</u>

To adjust test year 12/31/18 balance of plant in service for org. costs for Acquisition Expenditures associated with PUC approval of purchase For additional support, please see schedule 3B

Total Proforma Adjustments to Plant in Service **\$ 191,399**

Accumulated Depreciation and Amortization

3	12/31/18 Balance	\$	(6,429)
	5 Quarters Average 12/31/18 Balance		<u>62,065</u>
	Proforma Adjustment	\$	<u>(68,494)</u>

To adjust 5 quarters test year average accumulated depreciation to fully reflect 12/31/18 accum depr

4	12/31/18 Pro Forma Balance	\$	-
	12/31/18 Balance		<u>(6,429)</u>
	Proforma Adjustment	\$	<u>6,429</u>

To adjust 12/31/18 year end balance for additional 1/2 year depreciation

5	Proforma 12/31/18 Balance with org costs	\$	957
	Proforma 12/31/18 Balance		<u>-</u>
	Proforma Adjustment	\$	<u>957</u>

To adjust test year 12/31/18 balance of accum amort of org. costs For additional support, please see schedule 3B

Total Proforma Adjustments to Accumulated Depreciation and Amortization \$ (61,108)

Schedule 3A
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Material & Supplies

6	Proforma 12/31/18 Balance	\$ -
	5 Quarters Average 12/30/18 Balance	<u>-</u>
	Proforma Adjustment	<u>\$ -</u>
	To adjust 5 quarter average test year to 12/31/18 balance	
	Total Proforma Adjustments to Material & Supplies	<u>\$ -</u>

Accumulated Amortization of CIAC

7	Proforma 12/31/18 Balance	\$ (3,242)
	5 Quarters Average 12/31/18 Balance	<u>(3,184)</u>
	Proforma Adjustment	<u>\$ (58)</u>
	To adjust 5 quarter average test year to 12/31/18 balance	

Accumulated Deferred income Taxes

8	Proforma 12/31/18 Balance	\$ -
	5 Quarters Average 12/31/18 Balance	<u>-</u>
	Proforma Adjustment	<u>\$ -</u>
	To adjust 5 quarter average test year to 12/31/18 balance	

Cash Working Capital

9	Proforma 12/31/18 Balance	\$ 7,666
	Actual 12/31/18 Balance	<u>6,317</u>
	Proforma Adjustment	<u>\$ 1,349</u>

Total Proforma Adjustments to Cash Working Capital
See Schedule 3C for calculation of cash working capital.

LRWC Dockham Shores Water System

Schedule 3B

Plant / Accumulated Amortization / Amortization Expense

To reclass 186.07 Misc Def Dr - Acquisition Expenditures to Plant in Service - Organizational Costs

PUC		Amort.	Annual	Accum	
<u>Acct. No.</u>	<u>Description</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	<u>Amort</u>
301	Organizational costs	\$ 38,273	5.00%	\$ 1,914	\$ 957

LRWC Dockham Shores Water System

Schedule 3C

Working Capital

	2018 Actual <u>Amount</u>	2018 Proforma <u>Amount</u>
Operating and Maintenance Expenses	\$30,737	\$37,302
75/365	<u>20.55%</u>	<u>20.55%</u>
Working Capital	<u>\$6,317</u>	<u>\$7,666</u>

Rate of Return Information

Proforma Overall Rate of Return	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
Equity Capital	-1.71%	10.06%	-0.17%
Long Term Debt	101.71%	5.56%	5.66%
Total Capital	100.00%		5.48%

Note: Since Dockham's Equity Capital is negative, the Company is utilizing Long Term Debt cost rate for the rate of return.

Actual Overall Rate of Return	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
Equity Capital	-4.69%	9.60%	-0.45%
Long Term Debt	104.69%	1.42%	1.49%
Total Capital	100.00%		1.04%

Capital Structure for Ratemaking Purposes	12/31/2018 Proforma	12/31/2018 Proforma %	12/31/2018 Actual	12/31/2018 Actual %
Common Stock				
Other Paid in Capital	-	0.00%	-	0.00%
Retained Earnings	(5,775)	-1.71%	(5,775)	-4.69%
Total Equity	\$ (5,775)	-1.71%	\$ (5,775)	-4.69%
Long Term Debt	\$343,986	101.71%	\$128,986	104.69%
Total Capital	\$ 338,211	100.00%	\$ 123,211	100.00%

Long Term Debt	12/31/2018 Proforma	12/31/2018 Actual		
CoBank Loans	\$343,986	\$128,986		
Total Long Term Debt	\$343,986	\$128,986	\$0	\$0

Proforma Cost of Debt	12/31/2018 Amount		Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
2018 CoBank T04 Loan	\$ 128,986		5.45%	\$ 7,276	41	\$ 7,317	5.67%
2019 CoBank Loan	215,000		5.50%	11,673	136	11,809	5.49%
Total Cost of Debt	\$343,986			\$18,949	\$177	\$19,126	5.56%

Actual Cost of Debt	12/31/2018 Actual		Interest Rate	Interest Expense	Amortization of Fin Costs	Total Interest	Cost Rate
2018 CoBank T04 Loan	\$ 128,986			\$ 1,795	\$ 41	\$ 1,836	1.42%
Total Cost of Debt	\$128,986			\$1,795	\$ -	\$1,836	1.42%

Cost of Common Equity Capital
The Company is utilizing a cost of common equity of 10.06% (9.56% plus .50%) for pro forma purposes.