

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**LAKES REGION WATER COMPANY, INC.**

**Docket No. DW 20-187**

**Request for Change in Rates**

**SETTLEMENT AGREEMENT – PERMANENT RATES**

**I. INTRODUCTION**

This Settlement Agreement for Permanent Rates (Settlement Agreement) is entered into this 28th day of April, 2022, by and among Lakes Region Water Company, Inc. (Lakes Region or the Company) and the representatives of the Department of Energy (DOE) participating in this proceeding (collectively, the Settling Parties), in order to set permanent rates for the Company, pursuant to RSA 378.

**II. BACKGROUND**

Lakes Region is a regulated utility defined by RSA 362:2 and RSA 362:4, providing water service to approximately 1,813 customers in the communities of Moultonborough, Laconia, Tuftonboro, Thornton, Campton, Conway, Freedom, Gilford, Tamworth, Ossipee, and Albany. On March 26, 2020, the New Hampshire Public Utilities Commission (Commission) issued Order No. 26,340 which directed Lakes Region to “file a rate case no later than December 31, 2020, utilizing a 2019 test year”.

On November 30, 2020, Lakes Region filed its notice of intent to file rate schedules. On January 15, 2021, Lakes Region submitted a *Petition for Permanent and Temporary Rate Increases* in this proceeding. In its *Petition*, Lakes Region requested an increase in, and consolidation of, its permanent rates, including the rates for its Consolidated Tariff Systems,

Dockham Shores Division, and Wildwood Division. In the event the Commission did not approve of consolidated rates, Lakes Region requested that the Commission approve permanent rate increases for each individual rate group on a stand-alone basis. Lakes Region also requested that the Commission allow Lakes Region to change from a quarterly billing cycle to a monthly billing cycle.

On February 26, 2021, Lakes Region amended its proposed tariffs using a proposed effective date of February 28, 2021. Lakes Region requested that temporary rates for the Dockham Shores Division be established at the existing rates approved by the Commission on January 28, 2021 in Order No. 26,446. For other customers, Lakes Region proposed an increase to its Consolidated Tariff Systems of 4.51 percent, and an increase to its Wildwood Division of 39.30 percent.

On March 8, 2021 Lakes Region filed an Affidavit of Notice showing that the Company provided notice to customers of its requested rate increases by first class mail sent on February 26 and March 1, 2021, as required by N.H. Code Admin. R., Puc 1203.02 (c)(2). On March 26, 2021, the Commission issued Order No. 26,463, *Order Suspending Proposed Tariffs and Scheduling Prehearing Conference*. Lakes Region published Order No. 26,463 on its website that same day. The Company filed an affidavit of publication on April 20, 2021.

On April 7, 2021, LOV submitted a petition to intervene, to which the Company assented on April 22, 2021. On May 3, 2021, the Commission held a prehearing conference pursuant to Order No. 26,463. On May 27, 2021, LOV updated its petition to intervene to designate Carol Stansell, Richard and Kimberly Masse, and Irving (Bud) and Patricia Hadley as spokespersons for the LOV residents. The Commission granted LOV's petition to intervene, subject to certain conditions on August 3, 2021.

On August 30, 2021, Lakes Region, LOV, and the DOE filed a *Settlement Agreement – Temporary Rates*, which the Commission approved in Order No. 26,522 on September 23, 2021. Lakes Region filed its updated temporary rate tariff pages on October 7. Following approval of temporary rates, Lakes Region, the Department and LOV participated in multiple rounds of data requests and technical sessions resulting in this *Settlement Agreement for Permanent Rates*.

### **III. TERMS OF PERMANENT RATE SETTLEMENT AGREEMENT**

#### **A. Overview and Proposed Timeline for Illustrative Purposes**

##### **i. Overview**

The Settlement Agreement requests that the Commission approve, among other items all detailed below, a permanent rate revenue requirement and a proposed Step I Adjustment (Step I). The Step I adjustment will be a separate filing made following the Commission’s order approving this Settlement Agreement, and audited by the DOE Audit Division, as shown in the schedules attached to this Settlement Agreement.<sup>1</sup> The Settling Parties recognize that, as shown in Attachments A and C, the agreed-upon permanent rate revenue requirement and subsequent rates will result in a decrease to the currently-approved temporary rates for four of its customer rate groups: Waterville Valley Gateway Pool; Unmetered General Customers for the Current Consolidated group; Metered General Customers fixed charge for the Current Consolidated group; and the Metered General Customers volumetric charge for the Current Consolidated group. Those four customer groups comprise approximately 94 percent of the ratepayers Lakes

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<sup>1</sup> The Schedules set forth in Attachment A (Permanent Rates), Attachment B (Step Adjustment) and Attachment C (Computation of Customer Rates) are incorporated as material terms whether or not specifically identified or set forth in the paragraphs of this Settlement Agreement. The Settling parties also provide the Audit Report (Attachment E) and pertinent discovery responses (Attachment F) referenced in the above-mentioned schedules.

Region serves. A credit will be applied for recoupment as provided by this Settlement Agreement and RSA 378:29.

The proposed Step I, however, will result in an increase from the permanent rate revenue requirement, which will result in an increase in rates for all the Company's customers as shown in Attachments B and C. The Settling Parties recognize that the proposed permanent rate revenue requirement and Step I, if both rates are implemented separately, could result in possible customer confusion stemming from a decrease in rates for a period of months followed by an increase in rates, in the event Step I is approved. As such, the Settling Parties agree and recommend that, instead of implementing the rates on different effective dates, the effective date for both the permanent rate revenue requirement and the Step I rate increase should be realized on the same date. This will aid in maintaining rate stabilization and avoid customer confusion.

While awaiting an order approving Step I, the Company will continue to charge its currently-approved temporary rate up until the date of a Commission Order approving the Step I increase. That affords the Company with continued and stable water revenues while benefitting customers with the protection of the temporary rate mechanism, per RSA 378:27 and RSA 378:29, which will ultimately result in a credit for many of its customers.

**ii. Proposed Timeline**

The Settling Parties agree and provide the following sequential timeline for both the Settling Parties and Commission to address the remainder of this proceeding.

1. Hearing on Permanent Rates – May 5 and 6, 2022
2. Commission Order #1 – Approves Settlement Agreement, including Permanent Rate Revenue Requirement, but delays its date of implementation (allows the Company to continue charging its temporary rates)
3. Company files for rate case expenses within 30 days of Commission Order #1, which DOE will begin to review, subject to possible discovery requests

4. Company files Step I request for all completed projects
5. DOE Audit Division conducts audit of Step I and submits report to the parties
6. DOE submits final report, after review and in cooperation with the Settling Parties, to the Commission seeking approval of Step I increase in revenue requirement and resulting rates
7. Commission Order #2 – Approves Step I, which terminates the temporary rate period and allows Company to charge new increase in rates per Step I
8. Company files tariffs within 15 days after Commission Order #2
9. Company files temporary to permanent rate recoupment within 30 days of Commission Order #2, including rate case expenses related to the Step I Adjustment.
10. DOE conducts review and possible discovery of temporary to permanent rate recoupment and rate case expenses, followed by a report, which includes review of rate case expenses, to the Commission
11. Commission Order #3 – Approves temporary to permanent rate recoupment and rate case expenses

**B. Permanent Rate Revenue Requirement**

The Settling Parties agree and recommend approval of an overall revenue requirement of \$1,378,827, which represents an increase of 3.12%, or \$41,678, over pro forma 2019 test year revenues of \$1,337,149, as set forth in the schedules contained in Attachment A, which include a Rate Base (Schedule 2; Column 6) of \$3,607,730, an overall Rate of Return (Schedule 1a) of 8.52%, and an Operating Income Requirement \$307,258 (Schedule 3; Column 8).

The Settling Parties agree that the foregoing permanent rate revenue requirement represents a reasonable compromise of all issues relating to the permanent rate revenue requirement pending before the Commission for purposes of permanent rates, including cost of capital, pro forma adjustments, capital additions to rate base, and operating expenses. As the sums expressed above are the result of compromise and settlement, they are liquidations of all

permanent rate revenue requirement issues whether or not specifically identified in this Settlement Agreement.

The Settling Parties further agree that, subject to the provisions of this Settlement Agreement, the rates and revenue requirement set forth in Attachments A and C will result in permanent rates for Lakes Region's customers that are just and reasonable within the meaning of RSA 374:2 and RSA 378:7, and reflect Lakes Region's investment in plant that is prudent, used and useful, and is based on a reasonable rate base and a just and reasonable rate of return thereon in compliance with RSA 378:27 – 29.

### **C. Step I**

The Settling Parties Agree that the Company shall be allowed a combined step adjustment, Step I, based on three components: (1) the costs of post-test year plant additions placed in service as of December 31, 2020 and 2021; (2) post-test year Annual Wage Expense increases that were deferred pending review in this proceeding, as set forth in Schedules 1 to 5d in Attachment B; (3) and completion of paving work associated with post-test year plant additions estimated to be completed in the second quarter of 2022.<sup>2</sup> The Settling Parties agree that while the inclusion of construction work in progress in rates is prohibited, per

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<sup>2</sup> The Settling Parties understand and agree that Schedule 3 of Attachment B includes an estimated cost not-to-exceed total of \$36,150 for repaving work expected to be completed in Lakes Region's Paradise Shores System as part of Lakes Region's on-going main replacements, as set forth in Attachment B, Schedule 3. In discovery and technical sessions, Lakes Region advised that, except for repaving costs, all of the projects set forth in Attachment B were completed and placed in service by the fall of 2021. The Company delayed repaving of Robin Lane, Glen Forest Drive and Sunrise Drive at the request of the homeowners' association, the Balmoral Improvement Association ("BIA"), that owns the roads and rights-of-way, due to threatened litigation by a homeowner who disputes, *inter alia*, the location of these roads and rights-of-way, and both Lakes Region's and the BIA's rights and liabilities for repaving and the main replacement. Lakes Region anticipates that all repaving will be completed in May of 2022 but that the actual completion date for the repaving work is subject to uncertainties due to weather, availability of contractors and materials, and the threat of legal action by the homeowner.

RSA 378:30-a, the audit, review, and requested approval by the Commission will be undertaken after the paving work is completed.

The Settling Parties estimate that once the paving work is complete, the Company will file all applicable materials to the DOE for the DOE Audit Division's review. Once the audit is complete, the DOE, and other parties to the docket, will review the filing and resulting calculations, in conjunction with the Company, and submit a report to the Commission recommending a final revenue requirement increase and resulting rates. In the event the Company is unable to complete the necessary paving by six months subsequent to Commission Order # 1, due to circumstances beyond its control (see footnote 2), the Company reserves the right to withdraw the costs associated with the paving work from its Step I request. The Settling Parties agree that removal of those costs will not require adjustment to the Settlement Agreement or modification of the Commission's Order #1.

The Settling Parties agree that the proposed Step I adjustment, subject to DOE Audit Staff and Settling Parties' review, will result in an increase not to exceed \$144,863 in the Company's revenue requirement. That is an approximate 10.83 percent increase in the pro forma 2019 test year revenues of \$1,337,149, as set forth in the schedules included in Attachment B.

**D. Maximum Combined Effect of Permanent Rate Revenue Requirement and Step I**

The Settling Parties agree that the maximum combined effect of the Permanent Rate Revenue Requirement (\$41,678) and Step I (not to exceed \$144,863) would be at total maximum revenue requirement increase of \$186,541 (\$41,678 + not to exceed \$144,863). The resulting revenue requirement, after approval of Step I, would not exceed \$1,523,690 (Attachment C, Page 5). That is an approximate 13.95 percent increase in the pro forma 2019 test year revenues of \$1,337,149.

**E. Cost of Equity**

The Settling Parties agree and recommend approval of a Cost of Common Equity in this proceeding of 10.13 percent, which is based upon the formulaic approach for deriving a cost of common equity for small water utilities developed by the Public Utilities Commission Staff on November 4, 2019, in Docket No. IR 19-005, *Investigation to Determine a Method for Setting a Generic Return on Equity for Small Water Utilities*, which the Settling Parties agree to use.<sup>3</sup> The calculation of the proposed 10.13 percent Cost of Common Equity is based on a calculated baseline Return on Equity of 9.63 percent (Attachment D) plus an additional 50 basis points in recognition of rate case expense savings realized by not litigating cost of common equity during the course of this rate proceeding. The Settling Parties agree that the use of this methodology is for the limited purpose of this proceeding.

**F. Property Taxes.**

The Settling Parties agree that the local property taxes included in the proposed Permanent Rate Revenue Requirement total \$47,897 (Schedule 10, Attachment A). The Settling Parties further agree that the local property tax amount should be adjusted upward from that included in the Permanent Rate Revenue Requirement by no more than \$5,703 [\$1,594 + \$4,109] (Schedule 2 and 3, Attachment B), subject to audit by the DOE Audit Division and review by the DOE, to reflect plant additions in 2020 and 2021, should the Commission approve the Step I adjustment. The Settling Parties further agree that the Company will record a deferred debit and a subsequent adjustment to local property taxes in Lakes Region's revenue requirement, if any, will be addressed in the Company's next full rate proceeding in accordance with RSA 72:8-e.

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<sup>3</sup> A copy of the Commission Staff's (now DOE) November 4, 2019, recommendation along with the portion of the proposed rule changes specific to the calculation of a "Generic Return on Equity" are included in Attachment D to this Settlement Agreement.



**G. Consolidated Rate**

The Settling Parties agree and recommend that the Commission approve a system-wide consolidated rate based upon the agreed upon Permanent Rate Revenue Requirement. The Settling Parties further agree that a consolidated rate will avoid a wide disparity in rates among the two separate divisions of Dockham Shores and Wildwood if consolidated rates are not approved. *See Hampstead Area Water Company, Inc.*, Order No. 24,626 at 9-10 (May 26, 2006). The Settling Parties further note that, consistent with Commission precedent, “eliminating disparities among individual systems is likewise consistent with the long-term best interests of the utility’s customers.” *Id.* at 10. The Commission has further stated that in “the case of water utilities with multiple individual systems, consolidation will help insulate those individual systems from future rate shock when significant investments are made to comply with environmental mandates or for other reasons ... [t]his protection helps ensure that each system can continue to provide safe and adequate water service pursuant to RSA 374:1.” *Id.*

The Settling Parties note that the currently separate Wildwood and Dockham Shores Divisions would face a substantial rate increase if their individual rates remained independent from the consolidated rate group. Furthermore, as the Wildwood and Dockham Shores Divisions are relatively small, the individual rates resulting from normal plant investment could be onerous to their respective small customer bases. By consolidating rates, the Wildwood and Dockham Shores divisions will still face a rate increase, but one that is lower than if their rates were to remain unconsolidated. In addition, the cost of expensive plant additions or replacements in the future will be spread among the entire customer base of all Company divisions, decreasing the impact on the individual divisions, while providing for those necessary investments which are inevitable for all of the Company’s systems, regardless of consolidation. Rate consolidation

provides long-term benefits to all customers over time in each of Lakes Region's 19 separate systems as improvements are made to each system. Consolidation will also produce administrative efficiencies for the Company that can reduce administrative costs borne by customers.

## H. Rate Design

### i. Permanent Rate Revenue Requirement Rates

The Settling Parties agree to the following rate design, on a consolidated quarterly basis, and a consumption charge on a per one hundred cubic feet (ccf) of water.<sup>4</sup>

Rate Group	Previously Approved Base Charge	Proposed Permanent Rate Revenue Requirement Base Charge	Previously Approved Consumption Charge	Proposed Permanent Rate Revenue Requirement Consumption Charge
<b>Consolidated Tariff Systems (Divisions with Consumption Charge)</b>	\$145.42	\$148.31	\$5.66	\$5.77
<b>Consolidated Tariff Systems (Divisions without Consumption Charge)</b>	\$184.89	\$190.10	N/A	N/A
<b>Consolidated Tariff System (Waterville Valley Gateway – Pool)</b>	\$429.32	\$442.70	N/A	N/A
<b>Dockham Shores</b>	\$145.42	\$148.31	\$5.66	\$5.77
<b>Wildwood</b>	\$130.50	\$190.10	N/A	N/A

<sup>4</sup> The rates submitted for comparison do not include the currently-approved temporary rate increase. The Settling Parties further note that while Wildwood and Dockham Shores are presented in the above chart as stand-alone systems to show potential rate impact, the tariffs submitted after possible approval would reflect the Wildwood and Dockham Shores divisions as part of the consolidated rate group.

**ii. Estimated Step I Rates**

The Settling Parties Agree that the following chart estimates the highest allowable impact on ratepayers as compared to the Permanent Revenue Requirement rates, if the Commission approves those rates detailed above. The estimated rate design is based upon a quarterly rate and a consumption charge on a per one hundred cubic feet (ccf) of water. The Settling Parties reiterate that these rates are merely illustrative and intended to exhibit the maximum rate allowed by the Settlement Agreement with possible approval of the Step I increase.<sup>5</sup>

Rate Group	Proposed Permanent Rate Revenue Requirement Base Charge	Proposed Step I Revenue Requirement Base Charge	Proposed Permanent Rate Revenue Requirement Consumption Charge	Proposed Permanent Rate Revenue Requirement Consumption Charge
<b>Consolidated Tariff Systems (Divisions with Consumption Charge)</b>	\$148.31	\$163.89	\$5.77	\$6.38
<b>Consolidated Tariff Systems (Divisions without Consumption Charge)</b>	\$190.10	\$210.07	N/A	N/A
<b>Consolidated Tariff System (Waterville Valley Gateway – Pool)</b>	\$442.70	\$489.21	N/A	N/A
<b>Dockham Shores</b>	\$148.31	\$163.89	\$5.77	\$6.38
<b>Wildwood</b>	\$190.10	\$210.07	N/A	N/A

<sup>5</sup> Again, the Settling Parties agree that while Wildwood and Dockham Shores are presented in the above chart as stand-alone systems, the tariffs submitted after possible approval would reflect the Wildwood and Dockham Shores divisions as part of the consolidated rate group.

**I. Billing Cycle**

The Settling Parties agree that the Company's request to convert from a quarterly billing cycle to a monthly billing cycle should be deferred for examination during Lakes Region's next full rate proceeding. The Settling Parties recognize that a conversion to monthly billing benefits metered customers as those customers would be able to adjust consumption behavior sooner than billing on a quarterly basis. The Settling Parties further recognize that the same benefit does not exist for unmetered customers. As such, the Settling Parties further agree that a billing conversion is dependent upon a reduction in the overall number of unmetered customers to be examined in the Company's next full rate proceeding.

**J. Effective Date of Permanent Rate Revenue Requirement and Step I Rates**

The Settling Parties recognize that the agreed-upon permanent rates will result in a rate decrease from the currently-approved temporary rates for most of the Company's ratepayers. The Settling Parties further recognize that the agreed-upon Step I rates would result in a subsequent increase to all customer classes. The Settling Parties also recognize that approval of Step I rates extends beyond the final hearing for permanent rates as the Company will need to produce supporting documentation for DOE Audit Staff's review. .

As such, the Settling Parties agree that, instead of implementing the permanent rates and Step I rates on different effective dates, which would result in a rate decrease for most Company customers, followed some time thereafter by a rate increase, the effective date for both the permanent rate decrease and Step I rate increase should be realized on the same date. This will aid in maintaining rate stabilization and avoid customer confusion. The Settling Parties recommend that the simultaneous date be set by the issuance of a second Commission Order after the permanent rate hearing.

While the Settling Parties maintain and recommend that the subsequent Commission Order following the permanent rate hearing approve the Settlement Agreement, and the resulting Permanent Rate Revenue Requirement and rates, the resulting Permanent Rate Revenue Requirement rates should not be applied at the issuance of that Commission Order. Instead, the Settling Parties recommend the Commission issue a second order after hearing, which would terminate the temporary rate period and institute the Step I rates, which include the Permanent Rate Revenue Requirement rates, at the same time.

**K. Temporary to Permanent Rate Recoupment**

The Settling Parties recognize that the Commission authorized a temporary rate increase for the Company, for service rendered as of September 23, 2021. *Lakes Region Water Company, Inc.*, Order No. 26,533 (September 23, 2021). As the Settling Parties agree that implementation of the Permanent Rate Revenue Requirement and resulting rates will be a decrease from most customers' temporary rates, a majority of the Company's customers will receive a credit for the difference between the temporary rates and the ultimately approved permanent rates.

Per the section above regarding the effective date of Permanent Rate Revenue Requirement and Step I rates, the Settling Parties agree, subject to Commission approval, that the effective date that the new permanent rates shall go into effect shall be the same date upon which the Commission issues its order approving the Step I adjustment. As such, the time period for the temp-to-perm recoupment shall also be from September 23, 2021 through the date of the Commission's order approving Step I rates. The Settling Parties also agree that the temp-to-perm recoupment will apply solely to the Permanent Rate Revenue Requirement, which will result in a credit to most customers, and not the Step I increase and its resulting rate increase

which, if implemented and considered the final rate for temporary to permanent rate recoupment purposes, would result in a surcharge to customers. RSA 378:29.

The Company agrees to submit its temporary to permanent rate calculation and proposed recoupment within 30 days of the Commission's order approving Step I and its resulting rates. The DOE agrees to review the temporary to permanent rate submission, which includes the possibility of propounding discovery, and submit a report to the Commission, in coordination with the Company, for Commission approval of the resulting credit or surcharge.

**L. Rate Case Expenses**

The Settling Parties agree and recommend the Commission approve Lakes Region's recovery of its reasonable rate case expenses for this proceeding through a surcharge to customers. Lakes Region's rate case expenses may include, but are not limited to, legal and consultant expenses, incremental administrative expenses such as copying and delivery charges, and other such rate case related expenditures allowed under N.H. Admin. R., Puc 1906.01. Lakes Region agrees to file its final rate case expenses and proposal for surcharge recovery, pursuant to Puc 1905.02, no later than 30 days from the date of the Commission's order approving the Step I adjustment in this proceeding. The Settling Parties agree that the Department will review Lakes Region's proposal and provide a report for the Commission's consideration prior to the issuance of an order on rate case expense recovery.

The resulting surcharge shall be reflected as a separate item on all customers' bills. The Settling Parties agree, however, that the surcharge may be offset by the possible credit an individual customer may be entitled to from the temporary to permanent rate recoupment. As such, the Settling Parties agree that final report provided by the DOE should combine both its review of the temporary to permanent recoupment, described in the prior section, and rate case

expenses. This provides administrative efficiency for the Settling Parties and for the Commission, as the Commission could address both issues in a final order issued after its order on the Step I adjustment.

Upon issuance of the Commission's order approving rate case expense recovery, Lakes Region agrees to file, within 15 days of that order, a compliance tariff supplement including the approved surcharge relating to the total recovery of rate case expenses, as well as the average monthly surcharge per customer, if applicable.

**M. Meter Installation and Request for Waiver of Puc 603.03(a)**

The Settling Parties agree that Lakes Region services several unmetered customers, as evidenced by their tariffs. The Settling Parties further agree that the ultimate goal of the Company would be to install meters for all of its customers. Lakes Region proposed in the pre-filed testimony of Lakes Region President Thomas A. Mason implementation of a water conservation investment program which would allow for the recovery of costs related to meter installation over time. The Commission, however, declined to allow this on procedural grounds. Order No. 26,463 at 2 (March 26, 2021). As a result, the Settling Parties agree that Lakes Region will commit to the goal of installing customer meters in its unmetered Deer Cove, Lake Ossipee Village, and Indian Mound divisions before it files for its next rate case.

The Settling Parties agree that this commitment is a goal and that no strict timeline is imposed under the terms of this Settlement Agreement. The Settling Parties, furthermore, agree that there will be no penalty to the Company should this goal not be met by its next full rate proceeding provided there are reasonable circumstances beyond Lakes Region's control preventing such. The Company also commits to submitting with its next full rate proceeding a report on the status of meter installations for those three divisions, including detail regarding

customer accounts which did not have a meter installed and the reason for such delay, for Commission review and disposition as part of that next rate proceeding

The Settling Parties also agree that Lakes Region, as a public water utility, is subject to the Puc 600 rules governing such utilities. Per Puc 603.03(a), “[a]ll water sold by a utility shall be billed on the basis of metered volume sales unless a waiver is granted by the commission pursuant to Puc 201.05 for unmetered service.” Per the stated metering goal above, the Settling Parties agree and recommend that the Commission waive Puc 603.03(a) for Lakes Region until disposition of its next full rate proceeding in order for the Company to remain compliant with Commission rules while endeavoring to complete its metering goal.

The Settling Parties agree that this waiver serves the public interest as it will not require the Company to incur the annual cost of filing for waiver until Lakes Region’s next full rate proceeding, which reduces possible future cost to ratepayers and saves the Company from repeated administrative expenses and regulatory lag. Puc 201.05(a)(1) and (b)(1). The Settling Parties further agree that the method proposed in this Settlement Agreement is an appropriate alternative method to an annual waiver request filed by the Company. Puc 201.05(b)(2). The Settling Parties, lastly, agree that this waiver will not disrupt the orderly and efficient resolution of matters before the Commission as it will allow the Company to pursue its goal by its next full rate proceeding without the need for continued waiver requests. Puc 201.05(a)(2).

The Settling Parties agree that for administrative efficiency purposes, Lakes Region shall revise the “Division” paragraph of its “General Service – Metered” Tariff Page 15 to read as follows:



DIVISION

FAR ECHO HARBOR, PARADISE SHORES, WEST POINT, WATERVILLE  
VALLEY GATEWAY, HIDDEN VALLEY, WENTWORTH COVE,  
PENDELTON COVE, DEER RUN, WOODLAWN GROVE, ECHO LAKE  
WOODS, BRAKE HILL, AND CUSTOMERS IN THE LAKE OSSIPEE  
VILLAGE, INDIAN MOUND OR DEER COVE DIVISIONS IN WHICH THE  
COMPANY HAS INSTALLED A METER.

The proposed tariff amendment will allow the Company to properly charge its customers affected by a meter installation at the appropriate time without the need to complete metering of an entire division before tariff submission.

**IV. CONDITIONS**

**A.** This Settlement Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the Settlement Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Settlement Agreement, and the Settling Parties are unable to agree with said changes, conditions, or findings, the Settlement Agreement shall be deemed withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

**B.** The Settling Parties agree that the Commission's acceptance of the Settlement Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein.

**C.** This Settlement Agreement may be executed in multiple counterparts, which together shall constitute an agreement.

**IN WITNESS WHEREOF**, the Settling Parties have caused this Settlement Agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

LAKES REGION WATER COMPANY, INC.  
By Its Attorney,

NH WATER LAW

Dated: 4/28/2022

By:   
Justin C. Richardson, Esq.

NH DEPARTMENT OF ENERGY

Dated: 4/28/2022

By: /s/ Christopher R. Tuomala  
Christopher R. Tuomala, Esq.  
Hearings Examiner/Department Attorney

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**PERMANENT RATES**  
**REVENUE REQUIREMENT**

Attachment A  
Schedule 1

Rate Base (Schedule 2; Column 6)	\$ 3,607,730
Rate of Return (Schedule 1a)	x <u>8.52%</u>
Operating Income Requirement (See Schedule 3; Column 8)	307,258
Less: Proforma Test Year Operating Income (Schedule 3; Column 6)	<u>(276,868)</u>
Revenue Deficiency / (Surplus) Before Tax Effect (See Schedule 3; Column 7)	30,390
Tax Factor (Schedule 1b)	÷ <u>72.92%</u>
Revenue Deficiency / (Surplus) After Tax Effect (See Schedule 3; Column 7)	<b>41,678</b>
Add: Pro Forma Water Revenues from General Customers (Schedule 3; Column 6)	<u>1,337,149</u>
Water Revenues from General Customers Proposed by Department (See Schedule 3; Column 8)	<b><u>\$ 1,378,827</u></b>
Percent Increase in Annual Water Revenues from General Customers	<b><u><u>3.12%</u></u></b>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
WEIGHTED AVERAGE COST OF CAPITAL

	(1)	(2)	(3)	(4)	(5)	(5a)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	CAPITAL STRUCTURE						COST OF DEBT						
	Balance 12/31/14	Original Proforma Adj's Per Company	Proforma Adj's Per Dept	Adjusted Balance	Calculated Percent	Proforma Percent	Annual Interest	Annual Debt Expense	Proforma Adj's Per Company	Proforma Adj's Per Department	Adjusted Cost of Debt	TOTAL COST RATE	WEIGHTED AVERAGE COST OF CAPITAL
<b>Long-Term Debt:</b>													
Total Long-Term Debt (See Schedule 1ai)	\$ 915,541	\$ 633,000	\$ (92,094)	\$ 1,456,447	32.19%	32.19%	\$ 50,392	\$ 1,939	\$ 34,825	\$ (12,607)	\$ 74,549	5.12%	1.65%
<b>Common Equity:</b>													
Common Equity	10,000	-		10,000	0.22%								
Additional Paid-in Capital	1,423,322	-		1,423,322	31.46%								
Capital Stock Expense	4	-		4	0.00%								
Retained Earnings	1,537,894	96,463	(a,b)	1,634,357	36.13%								
<b>Total Common Equity</b>	<u>2,971,220</u>	<u>96,463</u>	<u>-</u>	<u>3,067,683</u>	<u>67.81%</u>	<u>67.81%</u>						10.13% (c)	6.87%
<b>Total Capitalization</b>	<u>\$ 3,886,761</u>	<u>\$ 729,463</u>	<u>\$ (92,094)</u>	<u>\$ 4,524,130</u>	<u>100.00%</u>	<u>100.00%</u>							<u>8.52%</u>

(a) See Dept Adj # 23: To reverse Accumulated Deferred Income Taxes - Savings: \$ 85,414

(b) To increase Retained Earnings based on certain Department adjustments to correct test year Operating Income & Expense accounts:

Dept Adj # 27: Audit Issue # 7	\$ 1,210
Dept Adj # 28: Audit Issue # 7	1,125
Dept Adj # 29: Audit Issue # 7	6,008
Dept Adj # 30: Audit Issue # 7	875
Dept Adj # 51: Audit Issue # 1	3,356
Dept Adj # 52: Audit Issue # 3	(1,435)
Dept Adj # 53: Audit Issue # 7	(15)
Dept Adj # 54: Audit Issue # 7	(75)
	<u>\$ 11,049</u>

(c) To reduce Cost of Equity from 10.44% proposed by the Company to 9.63% base ROE plus 0.50% for avoidance of ROE litigation for 10.13%.

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
CALCULATION OF COST OF DEBT

Description	Date of Issue	Date of Maturity	Interest Rate	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
				Balance 12/31/19	Proforma Adj's Per Company	Proforma Balance Per Co	Proforma Adj's Per Department	Proforma Balance Per Dept	Interest Expense	Annual Debt Expense	Total Debt Cost	Proforma Adj's Per Company	Proforma Balance Per Co	Proforma Adj's Per Department	Adjusted Cost of Debt	TOTAL COST RATE
<b>LONG-TERM DEBT</b>																
<b>COST OF DEBT</b>																
<b>Operating Loans:</b>																
CoBank S01 (Line of Credit)	06/24/14	06/30/15	Variable	\$ -	\$ -	\$ -		\$ -	\$ 1,107	\$ -	\$ 1,107	\$ -	\$ 1,107		\$ 1,107	0.00%
CoBank T01 (15 Year Note)	06/24/14	06/20/19	5.25%	315,853	-	315,853		315,853	17,758	400	18,158	-	18,158	(1,176) (a)	16,982	5.38%
CoBank T02 (5 Year Note)	06/25/14	06/20/19	3.45%	-	-	-		-	305	-	305	-	305	(305) (b)	-	0.00%
CoBank T03 (20 Year Note) - Indian Mound	04/27/15	06/20/15	5.50%	96,249	-	96,249		96,249	5,105	927	6,032	-	6,032	189 (c)	6,221	6.46%
CoBank T04 (20 Year Note) - Dockham Shores	12/18/17	11/20/37	5.45%	124,254	-	124,254		124,254	7,021	-	7,021	-	7,021	697 (d,e)	7,718	6.21%
CoBank T05 (20 Year Note) - Step 2	12/18/17	11/20/37	5.45%	245,496	-	245,496		245,496	13,868	-	13,868	-	13,868	(488) (f)	13,380	5.45%
CoBank T06 (20 Year Note)	12/02/21	04/20/42	4.40%	-	633,000	633,000	(92,094) (g)	540,906	-	-	-	-	34,769	(10,969) (h)	23,800	4.40%
<b>Total Operating Loans</b>				<u>781,852</u>	<u>633,000</u>	<u>1,414,852</u>	<u>(92,094)</u>	<u>1,322,758</u>	<u>45,164</u>	<u>1,327</u>	<u>46,491</u>	<u>34,769</u>	<u>81,260</u>	<u>(12,053)</u>	<u>69,207</u>	<u>5.23%</u>
<b>Equipment Loans:</b>																
Ford 2014 F150 6505	08/06/14	08/06/19	6.24%	-	-	-		-	114	-	114	-	114	(114) (i)	-	0.00%
Ford 2016 F150 8576	04/30/16	06/30/21	0.00%	11,796	-	11,796		11,796	-	-	-	-	-	-	-	0.00%
Ford 2017 F550 0334	10/16/17	10/16/22	4.34%	30,765	-	30,765		30,765	1,571	204	1,775	19	1,794	(236) (j)	1,558	5.06%
Ford 2018 F250 2428	02/08/18	02/08/23	4.84%	29,301	-	29,301		29,301	2,119	204	2,323	19	2,342	(701) (k)	1,641	5.60%
Ford 2018 F250 2159	02/08/18	02/08/23	4.84%	25,358	-	25,358		25,358	1,424	204	1,628	18	1,646	(197) (l)	1,449	5.72%
Ford 2019 F250 4338	11/27/19	11/27/24	1.90%	36,469	-	36,469		36,469	-	-	-	-	-	693 (m)	693	1.90%
<b>Total Equipment Loans</b>				<u>133,689</u>	<u>-</u>	<u>133,689</u>	<u>-</u>	<u>133,689</u>	<u>5,228</u>	<u>612</u>	<u>5,840</u>	<u>56</u>	<u>5,896</u>	<u>(554)</u>	<u>5,342</u>	<u>4.00%</u>
<b>Total Long-Term Debt</b>				<u>\$ 915,541</u>	<u>\$ 633,000</u>	<u>\$ 1,548,541</u>	<u>\$ (92,094)</u>	<u>\$ 1,456,447</u>	<u>\$ 50,392</u>	<u>\$ 1,939</u>	<u>\$ 52,331</u>	<u>\$ 34,825</u>	<u>\$ 87,156</u>	<u>\$ (12,607)</u>	<u>\$ 74,549</u>	<u>5.12%</u>
(a) CoBank T01 Balance @ 12/31/19				\$ 315,853								\$ 540,906				
Interest Rate			x	5.25%								4.40%				
Calculated Interest Expense				16,582								23,800				
Less: Test Year Interest Expense				(17,758)								(34,769)				
Interest Adjustment				<u>\$ (1,176)</u>								<u>\$ (10,969)</u>				
(h) CoBank T06 Loan - Dockham Shores																
Interest Rate (Dept TS 2-1)																
Calculated Interest Expense																
Less: Test Year Interest Expense																
Interest Adjustment																
(i) Ford 2014 F150 6505 Balance @ 12/31/19				\$ -								\$ -				
Interest Rate			x	3.45%								6.24%				
Calculated Interest Expense				-								-				
Less: Test Year Interest Expense				(305)								(114)				
Interest Adjustment				<u>\$ (305)</u>								<u>\$ (114)</u>				
(j) Ford 2017 F550 0334 Balance @ 12/31/19				\$ 96,249								\$ 30,765				
Interest Rate			x	5.50%								4.34%				
Calculated Interest Expense				5,294								1,335				
Less: Test Year Interest Expense				(5,105)								(1,571)				
Interest Adjustment				<u>\$ 189</u>								<u>\$ (236)</u>				
(k) Ford 2018 F250 2428 Balance @ 12/31/19				\$ 124,254								\$ 29,301				
Interest Rate			x	5.45%								4.84%				
Calculated Interest Expense				6,772								1,418				
Less: Test Year Interest Expense				(7,021)								(2,119)				
Interest Adjustment				<u>\$ (249)</u>								<u>\$ (701)</u>				
(l) Ford 2018 F250 2159 Balance @ 12/31/19				\$ 18,918								\$ 25,358				
Interest Rate			x	20								4.84%				
Calculated Interest Expense				946								1,227				
Less: Test Year Interest Expense				-								(1,424)				
Interest Adjustment				<u>\$ 946</u>								<u>\$ (197)</u>				
(m) Ford 2019 F250 4338 Balance @ 12/31/19				\$ 245,496								\$ 36,469				
Interest Rate			x	5.45%								1.90%				
Calculated Interest Expense				13,380								693				
Less: Test Year Interest Expense				(13,868)								-				
Interest Adjustment				<u>\$ (488)</u>								<u>\$ 693</u>				
(g) CoBank T06 Loan (Dept TS 2-1) - Dockham Shores				\$ 214,906												
Wildwood Pumpstation				260,000												
Robin Lane Main Replacement				66,000												
Less: Total CoBank T06 Loan				(633,000)												
CoBank T06 Loan - Post-Test Year Projects				<u>\$ (92,094)</u>												

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
EFFECTIVE TAX FACTOR**

Attachment A  
Schedule 1b

Taxable Income		100.00%
Less: NH Business Profits Tax		<u>-7.70%</u>
Federal Taxable Income		92.30%
Federal Income Tax Rate	x	<u>21.00%</u>
Effective Federal Income Tax Rate		19.38%
Add: NH Business Profits Tax		<u>7.70%</u>
Effective Tax Rate		<u><u>27.08%</u></u>
Percent of Income Available if No Tax		100.00%
Less: Effective Tax Rate		<u>-27.08%</u>
Percent Used as a Divisor in Determining Revenue Requirement		<u><u>72.92%</u></u>
Tax Multiplier (Effective Tax Rate ÷ Percent Used as a Divisor)		<u><u>0.37142</u></u>

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**PERMANENT RATES**  
**RATE BASE**

	(1)	(2)	(3)	(4)	(5)	(6)
	<u>13-Mo Avg Rate Base Per Co</u>	<u>Original Proforma Adj's Per Company</u>	<u>Original Proforma Rate Base Per Co</u>	<u>Proforma Adj's Per Department (Sch 2a)</u>	<u>Dept Adj # (Sch 2a)</u>	<u>Proforma Rate Base Per Staff</u>
<b><u>Plant in Rate Base:</u></b>						
Utility Plant in Service	\$ 6,588,574	\$ 641,200	\$ 7,229,774	\$ (607,688)	<b>1 - 8</b>	\$ 6,622,087
Less: Accumulated Depreciation	<u>(2,094,807)</u>	<u>(97,121)</u>	<u>(2,191,928)</u>	<u>9,387</u>	<b>9 - 17</b>	<u>(2,182,541)</u>
Net Plant in Service	<u>4,493,767</u>	<u>544,079</u>	<u>5,037,846</u>	<u>(598,300)</u>		<u>4,439,546</u>
Acquisition Adjustment (AA)	(276,689)		(276,689)			(276,689)
Less: Accumulated Amortization - AA	<u>200,435</u>	<u>3,930</u>	<u>204,365</u>			<u>204,365</u>
Net Acquisition Adjustment	<u>(76,254)</u>	<u>3,930</u>	<u>(72,324)</u>	<u>-</u>		<u>(72,324)</u>
Contributions in Aid of Construction (CIAC)	(899,678)		(899,678)			(899,678)
Less: Accumulated Amortization - CIAC	<u>331,659</u>	<u>8,768</u>	<u>340,427</u>			<u>340,427</u>
Net Contributions in Aid of Construction	<u>(568,019)</u>	<u>8,768</u>	<u>(559,251)</u>	<u>-</u>		<u>(559,251)</u>
<b>Net Plant in Rate Base</b>	<u><u>3,849,494</u></u>	<u><u>556,777</u></u>	<u><u>4,406,271</u></u>	<u><u>(598,300)</u></u>		<u><u>3,807,971</u></u>
<b><u>Working Capital:</u></b>						
Cash Working Capital	177,874	8,318	186,192	(18,302)	<b>18</b>	167,890
Materials and Supplies	20,242	4,510	24,752			24,752
Miscellaneous Deferred Assets	72,896	20,835	93,731	6,904	<b>19 - 22</b>	100,635
Accumulated Deferred Income Taxes	(332,308)	(27,692)	(360,000)			(360,000)
Accumulated Deferred Income Taxes - EDIT	(10,271)	(123,246)	(133,517)			(133,517)
Accumulated Deferred Income Taxes - Savings	<u>(6,570)</u>	<u>(78,844)</u>	<u>(85,414)</u>	<u>85,414</u>	<b>23</b>	<u>-</u>
<b>Net Working Capital in Rate Base</b>	<u><u>(78,137)</u></u>	<u><u>(196,119)</u></u>	<u><u>(274,256)</u></u>	<u><u>74,016</u></u>		<u><u>(200,240)</u></u>
<b>NET RATE BASE</b>	<u><u>\$ 3,771,357</u></u>	<u><u>\$ 360,658</u></u>	<u><u>\$ 4,132,015</u></u>	<u><u>\$ (524,285)</u></u>		<u><u>\$ 3,607,730</u></u>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO RATE BASE PER DEPARTMENT

Adj #**PROFORMA ADJUSTMENTS TO PLANT IN SERVICE:**Utility Plant in Service:

1	To reduce Co's Rate Base Adj # 2 (DS/WW Acquisition Costs) relative to adjusted DS acquisition costs (See Sch 4): Dockham Shores Acquisition Costs adjusted per Schedule 4 Less: Dockham Shores Acquisition Costs per Company	\$ 15,902 <u>(35,876)</u>	\$ (19,975)
2	To reverse Co's Rate Base Adj # 3 (2020 Plant Additions) to remove 2020 plant additions.		(191,548)
3	To reverse Co's Rate Base Adj # 4 (2020 Plant Retirements) to add back 2020 plant retirements.		26,741
4	To reverse Co's Rate Base Adj # 5 (2021 Plant Additions) to remove 2021 plant additions.		(418,000)
5	To record retirement of Logics Utility Billing S/W asset per Audit Issue # 1. (See Adj # 13)		(5,870)
6	To record retirement of three utility trailers per Audit Issue # 5 and Energy 2-16. (See Adj # 15)		(6,254)
7	To reclass expenditure related to DS Pumphouse from O&M Exp per Audit Issue # 7 and Energy 2-17. (See Adj # 27)		1,210
8	To reclass expenditure related to Office Driveway Paving from O&M Exp per Audit Issue # 7 and Energy 2-17. (See Adj # 29)		<u>6,008</u>
	<b>Total Adjustments - Utility Plant in Service</b>		<b><u>\$ (607,688)</u></b>

Accumulated Depreciation:

9	To adjust Co's Rate Base Adj # 8 (DS/WW Acquisition Costs) for adjustments made to DS Acquisition costs per Sch 4 (See Adj # 47): Dockham Shores Acquisition Costs adjusted per Schedule 4 Wildwood Acquisition Costs (Sch 4) Total Acquisition Costs - Adjusted Amortization Rate - 20 Years Re-Calculated Accumulated Amortization Less: Co's Rate Base Adj # 8	\$ 15,902 <u>14,664</u> 30,566 x 5.00% <u>(1,528)</u> 1,264	\$ (264)
10	To reverse Co's Rate Base Adj # 10 (2020 Plant Additions) to remove accumulated depreciation on 2020 plant additions.		12,010
11	To reverse Co's Rate Base Adj # 11 (2020 Plant Retirements) to add back accumulated depreciation on 2020 retirements.		(26,741)
12	To reverse Co's Rate Base Adj # 12 (2021 Plant Additions) to remove accumulated depreciation on 2021 plant additions.		13,874
13	To record retirement of Logics Utility Billing S/W asset per Audit Issue # 1. (See Adj # 5)		5,870
14	To adjust Accumulated Depreciation to reflect correct half-year depreciation per Audit Issue # 3 and Energy 2-15. (See Adj # 52)		(1,435)
15	To record retirement of three utility trailers per Audit Issue # 5 and Energy 2-16. (See Adj # 6)		6,254
16	To record Accum Depr on reclassified DS Pumphouse expenditure based on Audit Issue # 7 (See Adj # 53): Reclassified DS Pumphouse Expenditure Structures & Improve's Depreciation Rate	\$ 1,210 x 2.50%	(30)



DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO RATE BASE PER DEPARTMENT

**Adj #**

17	To record Accum Depr on reclassified Office Driveway Paving expenditure based on Audit Issue # 7 (See Adj # 54): Reclassified Office Driveway Paving Expenditure Structures & Improve's Depreciation Rate	\$ 6,008	
		x 2.50%	(150)
<b>Total Adjustments - Accumulated Depreciation</b>			<b>\$ 9,387</b>

**PROFORMA ADJUSTMENTS TO WORKING CAPITAL:**

**Cash Working Capital:**

18	To adjust Cash Working Capital component of rate base for Staff proforma adj's to Co's test year O & M Expense: O & M Expenses proposed by Department (Schedule 3; Column 6): % of O & M Exp's attributable to billings in arrears (1,714 / 1,813): % of O & M Exp's attributable to billings in advance (99 / 1,813): O & M Expenses subject to Cash Working Capital: Cash Working Capital Factor (75 days / 365 days) Net Cash Working Capital per Department Less: Net Cash Working Capital per Company	\$ 917,236	
		x 94.54% =	\$ 867,149
		x -5.46% =	(50,086)
			817,063
			20.55%
			167,890
			(186,192) <b>\$ (18,302)</b>

**Miscellaneous Deferred Assets:**

19	To add unamortized balance of '2012 Investigation (DW 07-105)' to Co's recorded Misc Deferred Dr's. (See Sch 5)		\$ 19,927
20	To reclass expenditure related to DW 16-619 from O&M Exp per Audit Issue # 7 (Energy 2-17) (See Adj # 28)		1,125
21	To amortize reclassified DW 16-619 expenditure over 5-years based on Audit Issue # 7 (See Adj # 55): Reclassified DW 16-619 Expenditure Amortization Rate (5-Yr)	\$ 1,125	
		x 20.00%	(225)
22	To adjust Co's Misc Deferred Dr's Adj # 16 to reflect initial year amortization (Staff 1-8, Energy 2-6) (Sch 5)		(13,923)
<b>Total Adjustments - Miscellaneous Deferred Assets</b>			<b>\$ 6,904</b>

**Accumulated Deferred Income Taxes - Savings:**

23	To reverse Accumulated Deferred Income Taxes - Savings: Test Year Savings Adjustment (See Co's Other Water Revenues Adj # 4) Prior Year Savings Adjustment	\$ 42,707	
		42,707	\$ 85,414

<b>NET RATE BASE ADJUSTMENTS PER DEPARTMENT (See Schedule 2; Column 4)</b>			<b>\$ (524,285)</b>
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**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**PERMANENT RATES**  
**OPERATING INCOME STATEMENT**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<u>Actual Test Year</u>	<u>Original Proforma Adj's Per Company</u>	<u>Original Proforma Test Year Per Co</u>	<u>Proforma Adj's Per Department (Sch 3a)</u>	<u>Dept Adj # (Sch 3a)</u>	<u>Proforma Test Year Per Dept</u>	<u>Revenue Deficiency (Surplus) (Sch 1)</u>	<u>Operating Income Req'mnt (Sch 1)</u>
<b><u>Operating Revenues:</u></b>								
Water Revenues from General Customers	\$ 1,321,367	\$ 260,172	\$ 1,581,539	\$ (244,390)	<b>24 - 25</b>	\$ 1,337,149	\$ 41,678	\$ 1,378,827
Water Revenues from POASI Special Contract	228,515	(17,747)	210,768	-	<b>26</b>	210,768		210,768
Other Operating Revenues	13,808	36,440	50,248			50,248		50,248
<b>Total Operating Revenues</b>	<u>1,563,690</u>	<u>278,865</u>	<u>1,842,555</u>	<u>(244,390)</u>		<u>1,598,165</u>	<u>41,678</u>	<u>1,639,843</u>
<b><u>Operating Expenses:</u></b>								
Operation & Maintenance Expenses	971,780	45,446	1,017,226	(99,990)	<b>27 - 46</b>	917,236		917,236
Depreciation Expense	200,869	39,082	239,951	(27,955)	<b>47 - 54</b>	211,996		211,996
Amortization of CIAC	(17,535)		(17,535)			(17,535)		(17,535)
Amortization of Acquisition Adjustment	(7,218)		(7,218)			(7,218)		(7,218)
Amortization Expense - Other	-		-	27,048	<b>55 - 58</b>	27,048		27,048
Other Tax Expense	99,522	16,257	115,779	(13,197)	<b>59 - 60</b>	102,582		102,582
<b>Total Operating Expenses</b>	<u>1,247,418</u>	<u>100,785</u>	<u>1,348,203</u>	<u>(114,095)</u>		<u>1,234,108</u>	<u>-</u>	<u>1,234,108</u>
Net Operating Income (Loss) before Income Taxes	316,272	178,080	494,352	(130,295)		364,057	41,678	405,734
Income Tax Expense	74,247	56,843	131,090	(43,901)	<b>61 - 62</b>	87,189	11,288	98,476
<b>Net Operating Income (Loss)</b>	<u>\$ 242,025</u>	<u>\$ 121,237</u>	<u>\$ 363,262</u>	<u>\$ (86,394)</u>		<u>\$ 276,868</u>	<u>\$ 30,390</u>	<u>\$ 307,258</u>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES PER DEPARTMENT

**Adj #****Water Revenues from General Customers**

24	To reverse Co's Water Sales Adj # 2 relative to the Co's calculated revenue requirement		\$ (260,172)
25	To record pro forma increase in revenues for Dockham Shores per DW 19-177: Pro forma 2019 Revenues from Water Sales per DW 19-177 Settlement Agreement (Sch 1) Less: Actual 2019 Revenues from Water Sales	\$ 54,413 (38,631)	15,782
<b>Total Adjustments - Water Revenues from General Customers</b>			<b>\$ (244,390)</b>

**Water Revenues from POASI Special Contract**

26	To adjust revenues from POASI Special contract.		\$ -
<b>Total Adjustments - Water Revenues from POASI Special Contract</b>			<b>\$ -</b>

**Operation & Maintenance Expenses:**

27	To reclass expenditure related to DS Pumphouse to Utility Plant per Audit Issue # 7 (Energy 2-17) (See Adj # 7)		\$ (1,210)
28	To reclass expenditure related to DW 16-619 to Misc Deferred Assets per Audit Issue # 7 (Energy 2-17) (See Adj # 20)		(1,125)
29	To reclass expenditure related to Office Driveway Paving to Utility Plant per Audit Issue # 7 (Energy 2-17) (See Adj # 8)		(6,008)
30	To eliminate two Outside Service Exp transactions per Audit Issue # 7 (Energy 2-17): Outside Services - Accounting Outside Services - Legal	\$ (875) (10,206)	(11,081)
31	To eliminate T&D Maint Exp transaction incurred during 2018 per Audit Issue # 7 (Energy 2-17)		(1,805)
32	To eliminate Fuel or Purchased Power Exp transaction incurred in 2018 per Audit Issue # 8.		(721)
33	To adjust Co's O&M Exp Adj # 1 (Wages) per Co's response to Energy 2-18.		(62)
34	To reduce Co's O&M Exp Adj # 1 (Wages) for 2021 Wage Increase. (Energy 2-18)		(12,417)
35	To reduce Co's O&M Exp Adj # 1 (Wages) for allocated capitalized wages (Energy 2-1(b)): Co's O&M Exp Adj 1 Less: Dept's Wage Adj' (See Adj #'s 33-34) Adjusted Pro Forma Wage Increase 2019 Capitalized Wages (Co's 2019 Annual Report, Schedule F-58, Lines 26-27) 2019 Actual Wages (Energy 2-18)	\$ 51,464 (12,479) 38,985 \$ 20,029 ÷ 383,999 x 5.22%	(2,033)
36	To reduce Co's O&M Exps for HRA Exp attributable to 2018 per Audit Issue # 10		(920)
37	To reduce HRA portion of Co's O&M Exp Adj # 2 (Benefits) per Co's response to Energy 3-3: Co's Actual 2020 HRA Payments (Energy 3-3) Less: HRA portion of Co's O&M Exp Adj # 2	\$ 1,473 (10,030)	(8,557)

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES PER DEPARTMENT**

**Adj #**

<b>37S</b>	To adjust HRA portion of Co's annual O&M Exp (Benefits) per Settlement. Co's Actual 2020 HRA Payments Co's Actual 2021 HRA Payments 2-Year Average Less: Co's Actual 2020 HRA Payments	\$ 1,473 4,680 <hr/> 3,077 <hr/> (1,473)	1,604
<b>38</b>	To reduce Co's O&M Exp Adj # 2 (Benefits) for allocated capitalized Benefits (Energy 2-1(b)): Co's O&M Exp Adj 2 Less: Dept's Benefits Adj' (See Adj #'s 36 - 37) Adjusted Pro Forma Wage Increase 2019 Capitalized Wages (Co's 2019 Annual Report, Schedule F-58, Lines 26-27) 2019 Actual Wages (Energy 2-18)	\$ 16,566 <hr/> (9,477) 7,089 \$ 20,029 ÷ <u>383,999</u> x <u>5.22%</u>	(370)
<b>39</b>	To reduce Co's O&M Exps for Pension Exp paid on behalf of the Co's Shareholder (Energy 2-4)		(5,127)
<b>40</b>	To adjust Co's O&M Exp Adj # 3 (Water Testing) to reflect 5-Year Average (Staff 1-6) (Sch 6)		(4,456)
<b>41</b>	To adjust Co's O&M Exp Adj # 4 (T&D Exp's) to reflect 3-Year Average (Staff 1-6) (Sch 7)		(12,990)
<b>41S</b>	To adjust Co's O&M Exp Adj # 4 (T&D Exp's) per Settlement (Sch 7)		1,107
<b>42</b>	To adjust Co's O&M Exp Adj # 5 (Uncollectible Accts) to reflect 3-Year Average (Staff 1-6) (Sch 8)		1,133
<b>43</b>	To adjust Co's O&M Exp Adj # 6 (Outside Services) to reflect 3-Year Average (Staff 1-6) (Sch 9)		(9,835)
<b>43S</b>	To adjust Co's O&M Exp Adj # 6 (Outside Services) per Settlement (Sch 9)		2,614
<b>44</b>	To reclassify Amortization Exp related to '2012 Investigation (DW 07-105)' to Amortization Exp - Other (See Adj # 56)		(9,980)
<b>45</b>	To reclassify Co's O&M Exp Adj # 8 (Amortization Exp) to Amortization Exp - Other. (See Adj # 57)		(16,259)
<b>46</b>	To adjust Co's O&M Exp Adj # 9 (PUC Audit Costs) per the Company's response to Energy 2-11: PUC Audit costs per Energy 2-11 Amortization Period (3 Years) Annualized Audit Expense Less: Co's O&M Exp Adj # 9	\$ 526 ÷ <u>3</u> 175 <hr/> (1,667)	<hr/> (1,492)
<b>Total Adjustments - Operation &amp; Maintenance Expenses</b>			<b><u>\$ (99,990)</u></b>

**Depreciation Expense:**

<b>47</b>	To adjust Co's Depr Exp Adj # 10 (DS/WW Acquisition Costs) for adjustments made to DS Acquisition costs (See Adj # 9) Dockham Shores Acquisition Costs adjusted per Schedule 4 Wildwood Acquisition Costs (Sch 4) Total Acquisition Costs - Adjusted Amortization Rate - 20 Years Re-Calculated Accumulated Amortization Less: Co's Depr Exp Adj # 10	\$ 15,902 <hr/> 14,664 30,566 x <u>5.00%</u> 1,528 <hr/> (2,527)	\$ (999)
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DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES PER DEPARTMENT

<u>Adj #</u>				
48	To reverse Co's Depr Exp Adj # 13 to remove Depreciation Expense on 2020 plant additions.			(12,010)
49	To reverse Co's Depr Exp Adj # 14 to add Depreciation Expense on 2020 plant retirements.			668
50	To reverse Co's Depr Exp Adj # 15 to remove Depreciation Expense on 2021 plant additions.			(13,874)
51	To eliminate depreciation expense recorded on Logics Utility Billing S/W asset during the test year. (Energy 2-13)			(3,356)
52	To adjust Depreciation Expense to reflect correct half-year depreciation per Audit Issue # 3 (Energy 2-15) (See Adj # 14)			1,435
53	To record Accum Depr on reclassified DS Pumphouse expenditure based on Audit Issue # 7 (See Adj # 16):			
	Reclassified DS Pumphouse Expenditure	\$	1,210	
	Structures & Improve's Depreciation Rate	x	2.50%	30
54	To record Accum Depr on reclassified Office Driveway Paving expenditure based on Audit Issue # 7 (See Adj # 17):			
	Reclassified Office Driveway Paving Expenditure	\$	6,008	
	Structures & Improve's Depreciation Rate	x	2.50%	150
<b>Total Adjustments - Depreciation Expense</b>				<b><u>\$ (27,955)</u></b>
 <b><u>Amortization Expense - Other:</u></b>				
55	To amortize reclassified DW 16-619 expenditure over 5-years based on Audit Issue # 7 (See Adj # 21):			
	Reclassified DW 16-619 Expenditure	\$	1,125	
	Amortization Rate (5-Yr)	x	20.00%	\$ 225
56	To reclassify Amortization Exp related to '2012 Investigation (DW 07-105)' from O&M (Regulatory Comm) Exp (See Adj # 44)			9,980
57	To reclassify Co's O&M Exp Adj # 8 (Amortization Exp) from O&M Expenses. (See Adj # 45)			16,259
58	To increase Co's O&M Exp Adj # 8 (Amortization Exp) (Staff 1-8, Energy 2-6) (Sch 5)			<u>584</u>
<b>Total Adjustments - Amortization Expense - Other</b>				<b><u>\$ 27,048</u></b>
 <b><u>Other Tax Expense:</u></b>				
59	To adjust Co's Pro Forma Property Tax Expense (Sch 10)			\$ (12,087)
60	To reduce Co's Other Tax Exp Adj 19 (Payroll) for Dept's Pro Forma Wage Adjustments:			
	Dept Wage Adjustments (See Adj #'s 33-35)	\$	(14,512)	
	Payroll Tax Rate	x	7.65%	<u>(1,110)</u>
<b>Total Adjustments - Other Tax Expense</b>				<b><u>\$ (13,197)</u></b>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
PROFORMA ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES PER DEPARTMENT

**Adj #**

**Income Tax Expense:**

<b>61</b>	To adjust Co's calculated Income Tax Provision: Co's Net Operating Income Adjustments before Income Taxes (Schedule 3, Column 2)	\$ 178,080	
	Effective Tax Rate (Sch 1b)	x 27.08%	
	Income Tax Provision relative to Co's Net Operating Income Adjustments	48,229	
	Less: Co's Income Tax Provision	<u>(56,843)</u>	\$ (8,614)
<b>62</b>	Dept's Income Tax Provision relative to Dept's Net Operating Income Adjustments (Sch 3b)		<u>(35,288)</u>
	<b>Total Adjustments - Income Tax Expense</b>		<b><u>\$ (43,901)</u></b>
	<b>NET OPERATING INCOME ADJUSTMENTS PER DEPARTMENT (See Schedule 3; Column 4)</b>		<b><u>\$ (86,394)</u></b>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES

Attachment A  
Schedule 3b

**PROFORMA ADJUSTMENTS TO FEDERAL AND STATE INCOME TAX EXPENSE PER DEPARTMENT**

**Summary of Operating Income Statement Adj's before Income Taxes per Department (Schedule 3a):**

**Operating Revenues:**

Water Revenues from General Customers	\$ (244,390)
Water Revenues from POASI Special Contract	-
Other Operating Revenues	-
	-

**Net Increase / (Decrease) in Operating Revenues** (244,390)

**Operating Expenses:**

Operation & Maintenance Expenses	(99,990)
Depreciation Expense	(27,955)
Amortization of CIAC	-
Amortization of Acquisition Adjustment	-
Amortization Expense - Other	27,048
Other Tax Expense	(13,197)
<b>Total Operating Expenses</b>	<b>(114,095)</b>

Net Increase / (Decrease) in Net Operating Income (Loss) before State Income Tax Expense (130,295)

**State Income Tax Expense:**

New Hampshire Business Profits Tax @ 7.70 % 10,033

Net Increase / (Decrease) in Net Operating Income (Loss) before Federal Income Tax Expense (120,262)

**Federal Income Tax Expense:**

Federal Income Tax @ 21.00% 25,255

Sub-total (95,007)

Less: Dept's Adj # 61 to Adjust Co's Pro Forma Income Tax Provision 8,614

**Net Proforma Adjustments to Net Operating Income (Loss) per Dept (See Schedule 3; Column 4)** **\$ (86,394)**

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**PERMANENT RATES**  
**ANALYSIS OF DOCKHAM SHORES ACQUISITION COSTS**

Dockham Shores Acquisition/Financing Costs per Company	\$ 35,876
Less: Legal charge directly attributable to proposed acquisition of 'Remick Acres' (Staff 1-9; Pg 362)	(1,026)
Less: Unrelated Accounting Charge (Staff 1-9; Pg 373 (See Co's response to Energy 2-7(c)))	(31)
Less: Charges directly attributable to CoBank Financing	
CoBank Loan Fee (Staff 1-9; Pg's 367-368)	(3,000)
Accounting Charge (Staff 1-9; Pg 385)	<u>(16)</u>
Dockham Shores DW 16-619 Acquisition/Financing Costs	31,803
Less: Dockham Shores Allocated Financing Costs (1/2)	<u>(15,902)</u>
Dockham Shores Allocated Acquisition Costs - Adjusted	<u><u>\$ 15,902</u></u>
Summary:	
Dockham Shores Acquisition Costs	<b>\$ 15,902</b>
Dockham Shores Financing Costs	<b>18,918</b>
Non-related Costs	<u>1,057</u>
Dockham Shores Acquisition/Financing Costs per Company	<u><u>\$ 35,876</u></u>



**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
PERMANENT RATES  
ANALYSIS OF UNAMORTIZED DEFERRED DEBITS**

	Miscellaneous Deferred Debits Per 2019 Annual Report	Company's Pro Forma Adjustments	Miscellaneous Deferred Debits per Company	Department's Pro Forma Adjustments	Miscellaneous Deferred Debits Adjusted per Department	Amortization Period	Annual Amortization Expense per Department	Unamortized Misc Deferred Debits per Department
2012 Investigation (DW 07-105)	\$ 19,927	\$ (19,927) (a)	\$ -	\$ 19,927 (d)	\$ 19,927	N/A	\$ 9,980 (i)	\$ 19,927
Acquisition Costs for Dockham Shores and Wildwood	50,540	(50,540) (b)	-	-	-	N/A	-	-
Step 2 Rate Adjustment (DW 15-209)	2,145	-	2,145	(120) (e)	2,025 ÷	5 =	405	1,620
ROE Petition (DW 19-005)	50,835	-	50,835	-	50,835 ÷	5 =	10,167	40,668
West Point Dry Well	16,581	-	16,581	-	16,581 ÷	20 =	829	15,752
Tax Investigation (DW 18-056)	18,526	-	18,526	2,920 (f,g)	21,446 ÷	5 =	4,289	17,157
Dockham Shores Step Adjustment (DW 16-619)	5,644	-	5,644	1,245 (e,h)	6,889 ÷	5 =	1,378	5,511
Dockham Shores Rate Case (DW 19-177)	10,934	(10,934) (c)	-	-	-	N/A	-	-
	<u>\$ 175,132</u>	<u>\$ (81,401)</u>	<u>\$ 93,731</u>	<u>\$ 23,972</u>	<u>\$ 117,703</u>		<u>\$ 27,048</u>	<u>\$ 100,635</u>

(a) Deferred Debit not included in Co's Rate Filing: \$(19,927)

(b) See Co's Rate Base Adj # 2: \$(50,540)

(c) Deferred Debit not included in Co's Rate Filing: \$(10,934)

(d) See Dept's Adj # 19: \$19,927

(e) Legal Cost for DS Step Adjustment (Staff 1-8; Pg 132): \$(120) / \$120

(f) Accting Cost for DS Acq Exp (Staff 1-8; Pg 284)  
(See Co's Response to Energy 2-6): \$(420)

(g) Accting Costs reclassified from 2018 Outside Services  
Expense (See Schedule 9): \$3,340

(h) See Dept's Adj #'s 20: \$1,125

(i) Co recorded amortization expense of \$9,980 during 2019. Dept  
reclassified Co's entry from Regulatory Exp per Dept Adj #'s 44 & 56.

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**ACCT 643: TREATMENT EXP - MISC - WATER TESTING**  
**DEPARTMENT ADJUSTMENT # 40**

<b>WATER TESTING EXP - 5-YEAR AVERAGE (a):</b>			
2015	Water Testing	\$ 14,358	
2016	Water Testing	9,479	
2017	Water Testing	8,493	
2018	Water Testing	11,435	
2019	Water Testing	<u>26,555</u>	\$ 14,064
<b>LESS: WATER TESTING EXP - 2019</b>			<u>(26,555)</u>
<b>CALCULATED ADJUSTMENT TO 5-YR AVG</b>			(12,491)
<b>LESS: CO'S O&amp;M ADJ # 3</b>			<u>8,035</u>
<b>DEPARTMENT ADJUSTMENT # 40</b>			<u><u>\$ (4,456)</u></u>

(a) See Co's Response to Staff 1-6, Pages 51-88

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**TRANSMISSION AND DISTRIBUTION EXPENSES**  
**DEPARTMENT ADJUSTMENTS # 41 and # 41S**

<b>T&amp;D EXPENSES - 3-YEAR AVERAGE:</b>		<u><b>2017 (a)</b></u>	<u><b>2018 (b)</b></u>	<u><b>2019 (c)</b></u>	<u><b>AVERAGE</b></u>
# 673	MAINTENANCE - T&D MAINS	\$ 10,819	\$ 23,394	\$ 54,544	\$ 29,586
# 675	MAINTENANCE OF SERVICES	-	9,462	1,281	3,581
# 676	MAINTENANCE OF METERS	-	762	3,479	1,414
# 678	MAINTENANCE - MISC EQUIP	-	6,656	-	2,219
	<b>TOTALS</b>	<u><u>\$ 10,819</u></u>	<u><u>\$ 40,274</u></u>	<u><u>\$ 59,304</u></u>	<u><u>\$ 36,799</u></u>
<b>LESS: T&amp;D EXPENSES - 2019</b>					<u>(59,304)</u>
<b>CALCULATED ADJUSTMENT TO 3-YR AVG (2017 - 2019)</b>					(22,505)
<b>LESS: CO'S O&amp;M ADJ # 4</b>					<u>9,515</u>
<b>DEPARTMENT ADJUSTMENT # 41</b>					<u><u>\$ (12,990)</u></u>
<b>Adjustment Per Settlement:</b>					
<b>T&amp;D EXPENSES - 3-YEAR AVERAGE:</b>		<u><b>2018 (b)</b></u>	<u><b>2019 (c)</b></u>	<u><b>2020</b></u>	<u><b>AVERAGE</b></u>
# 673	MAINTENANCE - T&D MAINS	\$ 23,394	\$ 54,544	\$ 6,965	\$ 28,301
# 675	MAINTENANCE OF SERVICES	9,462	1,281	5,090	5,278
# 676	MAINTENANCE OF METERS	762	3,479	1,273	1,838
# 678	MAINTENANCE - MISC EQUIP	6,656	-	813	2,490
	<b>TOTALS</b>	<u><u>\$ 40,274</u></u>	<u><u>\$ 59,304</u></u>	<u><u>\$ 14,141</u></u>	<u><u>\$ 37,906</u></u>
<b>LESS: T&amp;D EXPENSES - 2019</b>					<u>(59,304)</u>
<b>CALCULATED ADJUSTMENT TO 3-YR AVG (2018 - 2020)</b>					(21,398)
<b>LESS: Calculated Adjustment to 3-YR AVG (2017 - 2019)</b>					<u>22,505</u>
<b>DEPARTMENT ADJUSTMENT # 41S</b>					<u><u>\$ 1,107</u></u>

(a) See Co's Response to Staff 1-6, Page 38

(b) See Co's Response to Staff 1-6, Pages 40-42

(c) See Co's Response to Staff 1-6, Pages 45-47

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
ACCT 904: UNCOLLECTIBLE ACCOUNTS  
DEPARTMENT ADJUSTMENT # 42**

Attachment A  
Schedule 8

**UNCOLLECTIBLE ACCOUNTS EXP - 3-YEAR AVERAGE:**

2017	Uncollectible Accts (a)	\$ 15,097	
2018	Uncollectible Accts (b)	2,544	
2019	Uncollectible Accts (c)	<u>20,854</u>	\$ 12,832

**LESS: UNCOLLECTIBLE ACCTS EXP - 2019** (20,854)

**CALCULATED ADJUSTMENT TO 3-YR AVG** (8,022)

**LESS: CO'S O&M ADJ # 5** 9,155

**DEPARTMENT ADJUSTMENT # 42** \$ 1,133

(a) See Co's Response to Staff 1-6, Page 38

(b) See Co's Response to Staff 1-6, Page 42

(c) See Co's Response to Staff 1-6, Pages 47-48

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**LRWC - CONSOLIDATED**  
**ACCT 923: OUTSIDE SERVICES**  
**DEPARTMENT ADJUSTMENTS # 43 and # 43S**

		<u>2017 (a')</u>	<u>2018 (b')</u>	<u>2019 (c')</u>	<u>AVERAGE</u>	<u>Settlement</u>	
						<u>Adj</u>	<u>Final</u>
<b>OUTSIDE SERVICES EXP - 3-YEAR AVERAGE:</b>							
# 923.1	ACCOUNTING SERVICES	\$ 21,142	\$ 15,874	\$ 12,422			
	LESS: ADJUSTMENTS	-	(3,340) (a)	(875) (b)			
	ADJUSTED ACCOUNTING SVCS	<u>21,142</u>	<u>12,534</u>	<u>11,547</u>	\$ 15,074	\$ -	\$ 15,074
#923.2	COMPUTER SERVICES	7,227	10,972	8,788			
	LESS: ADJUSTMENTS	-	-	-			
	ADJUSTED COMPUTER SVCS	<u>7,227</u>	<u>10,972</u>	<u>8,788</u>	8,996	-	8,996
#923.3	LEGAL SERVICES	24,838	32,004	12,572			
	LESS: ADJUSTMENTS	(616) (c)	(21,433) (d)	(10,206) (e)			
	ADJUSTED COMPUTER SVCS	<u>24,222</u>	<u>10,571</u>	<u>2,366</u>	12,386	2,614	15,000
# 923.4	OTHER SERVICES	75	-	-			
	LESS: ADJUSTMENTS	-	-	-			
	ADJUSTED OTHER SVCS	<u>75</u>	<u>-</u>	<u>-</u>	25	-	25
	<b>TOTALS</b>	<u>\$ 52,666</u>	<u>\$ 34,077</u>	<u>\$ 22,701</u>	\$ 36,481	\$ 2,614	\$ 39,095
	<b>LESS: OUTSIDE SERVICES EXPENSE - 2019</b>				<u>(33,782)</u>	-	<u>(33,782)</u>
	<b>CALCULATED ADJUSTMENT TO 3-YR AVG</b>				2,699	2,614	5,313
	<b>LESS: CO'S O&amp;M ADJ # 6</b>				<u>(12,534)</u>	-	<u>(12,534)</u>
	<b>DEPARTMENT ADJUSTMENT # 43 / # 43S</b>				<u>\$ (9,835)</u>	<u>\$ 2,614</u>	<u>\$ (7,221)</u>

- (a) DW 18-056 Tax Investigation (See Sch 5) \$ (3,340)  
(b) Trust Services (Audit Issue # 7) \$ (875)  
(c) Timber Lawsuit (Staff 1-6, Pg 39) \$ (616)  
(d) Timber Lawsuit (Staff 1-6, Pg 44) \$ (21,433)  
(e) Timber Lawsuit (Audit Issue # 7) \$ (10,206)

- (a') See Co's Response to Staff 1-6, Pages 38-39  
(b') See Co's Response to Staff 1-6, Pages 42-44  
(c') See Co's Response to Staff 1-6, Pages 48-50

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
LRWC - CONSOLIDATED  
2020 PROPERTY TAX EXPENSE ANALYSIS  
DEPARTMENT ADJUSTMENT # 59

		2020 PROPERTY TAX EXPENSE						
		First Issue			Second Issue			Total
		Assess	Rate	Tax	Assess	Rate	Tax	Payment
<b>ALBANY:</b>	7-56-Bldg	\$ -	\$ -	\$ -	\$ 46,600	\$ 10.34	\$ 482	\$ 482
<b>CAMPTON:</b>	2-1-500	41,000	10.64	436	8,100	22.27	(256)	180
<b>CONWAY:</b>	216-27	61,900	8.16	505	55,400	15.39	348	853
	266-74	126,900	8.16	1,036	100,900	15.39	517	1,553
		<u>188,800</u>		<u>1,541</u>	<u>156,300</u>		<u>865</u>	<u>2,405</u>
<b>FREEDOM:</b>	34-34	260,700	5.67	1,478	338,100	8.97	1,555	3,033
<b>GILFORD:</b>	227-142	164,800	7.00	1,154	166,140	13.19	1,038	2,191
	227-192	21,160	7.00	148	21,510	13.19	136	284
	000-000	130,800	7.00	916	43,200	13.19	(346)	570
		<u>316,760</u>		<u>2,217</u>	<u>230,850</u>		<u>828</u>	<u>3,045</u>
<b>LACONIA:</b>	166-358-20	157,588	9.28	1,462	177,661	17.80	1,700	3,162
<b>MOULTONBOROUGH:</b>	71-001	69,600	2.60	181	71,000	5.35	199	380
	71-006	191,000	2.60	497	187,900	5.35	509	1,005
	71-015	232,400	2.60	604	288,300	5.35	938	1,542
	72-092	8,300	2.60	22	8,900	5.35	26	48
	72-093	8,300	2.60	22	8,900	5.35	26	48
	72-094	8,300	2.60	22	8,900	5.35	26	48
	72-095	317,189	2.60	825	317,189	5.35	872	1,697
	93-03	8,500	2.60	22	9,200	5.35	27	49
	272-03	52,700	2.60	137	56,900	5.35	167	304
	888-888-2	1,200,500	2.60	3,121	916,300	5.35	1,781	4,902
		<u>2,096,789</u>		<u>5,452</u>	<u>1,873,489</u>		<u>4,572</u>	<u>10,023</u>
<b>OSSIPEE:</b>	44-999-UTL	11,600	8.57	99	11,000	17.20	90	189
	73-999-UTL	370,000	8.32	3,078	471,000	16.70	4,787	7,866
		<u>381,600</u>		<u>3,178</u>	<u>482,000</u>		<u>4,877</u>	<u>8,055</u>
<b>TAMWORTH:</b>	201-039-300	346,500	9.81	3,399	406,800	20.64	4,997	8,396
<b>THORNTON:</b>	11-5-W	298,900	8.45	2,526	292,800	18.33	2,841	5,367
<b>TUFTONBORO:</b>	70-2-48	363,700	4.11	1,495	415,700	7.78	1,739	3,234
	70-2-49	66,000	4.11	271	66,000	7.78	242	513
		<u>429,700</u>		<u>1,766</u>	<u>481,700</u>		<u>1,982</u>	<u>3,748</u>
<b>STATE OF NH:</b>					4,020,200	6.60	26,533	26,533
<b>TOTAL</b>		<u>\$ 4,518,337</u>		<u>\$ 23,455</u>	<u>\$ 8,514,600</u>		<u>\$ 50,975</u>	<u>\$ 74,430</u>
							Less: Pro-forma Property Tax Expense per Co:	
							Co's Test Year Property Tax Expense	\$76,312
							Co's Property Tax Expense Adj's # 17 & # 18	10,205
							<u>(86,517)</u>	<u>(86,517)</u>
							<b>Department's Adjustment # 59 to Property Tax Expense</b>	<b><u>\$ (12,087)</u></b>

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT**  
**CALCULATION OF STEP ADJUSTMENT**

Attachment B  
Schedule 1

		<b>Total</b>
2020 Plant Additions (Sch 2)	\$ 206,821	
Less: Accumulated Depreciation - 2020 Plant Additions (Sch 2)	<u>(15,240)</u>	\$ 191,581
2021 Plant Additions (Sch 3)	\$ 670,351	
Less: Accumulated Depreciation - 2021 Plant Additions (Sch 3)	<u>(48,800)</u>	621,551
<b>Cash Working Capital:</b>		
Increase in Operation and Maintenance Expense (Sch 4)	<u>\$ 11,769</u>	
% of O & M Exp's attributable to billings in arrears (1,714 / 1,813):	x 94.54% = \$ 11,127	
% of O & M Exp's attributable to billings in advance (99 / 1,813):	x <u>-5.46%</u> = (643)	
O & M Expenses subject to Cash Working Capital:	10,484	
Cash Working Capital Factor (75 days / 365 days)	<u>20.55%</u>	<u>2,154</u>
Total Addition to Rate Base		815,287
Rate of Return (Att 1; Sch 1a)		x <u>8.52%</u>
<b>Increase in Net Operating Income Requirement</b>		<b>\$ 69,435</b>
Increase in Annual Wage Expense (Sch 4) - Settlement:		11,769
<b>Depreciation Expense:</b>		
Annual Depreciation Expense - 2020 Plant Additions (Sch 2)	\$ 15,240	
Less: Annual Depreciation Expense - 2020 Retirements (Sch 2a)	<u>(668)</u>	\$ 14,572
Annual Depreciation Expense - 2021 Plant Additions (Sch 3)	\$ 48,800	
Less: Annual Depreciation Expense - 2021 Retirements (Sch 3a)	<u>(15,365)</u>	<u>33,435</u>
		48,006
<b>Property Tax Expense:</b>		
Annual Property Tax Expense - 2020 Plant Additions (Sch 2)	\$ 2,358	
Annual Property Tax Expense - 2021 Plant Additions (Sch 3)	<u>7,353</u>	9,712
Increase in Annual Payroll Tax Expense (Sch 4) - Settlement:		900
<b>Income Tax Expense:</b>		
Increase in Net Operating Income Requirement	\$ 69,435	
Income Tax Multiplier (Att 1; Sch 1b)	x <u>0.37142</u>	<u>25,790</u>
<b>Increase in Revenue Requirement</b>		<b>\$ 165,612</b>
Less: Increase in POASI Special Contract (Schedule 5a)		<u>(20,749)</u>
<b>Step Increase</b>		<b>\$ 144,863</b>
<b>Pro Forma Water Revenues from General Customers</b> (Att 1; Sch 3)		<b>\$ 1,337,149</b>
<b>% Increase in Annual Water Revenues from General Customers</b>		<b><u>10.83%</u></b>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
2020 PLANT, DEPRECIATION, AND STATE AND LOCAL PROPERTY TAXES

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Div #	Name	Acct #	Non-Revenue Producing	Total Division	Annual Depreciation	Net Plant	State Utility Taxes @ \$6.60	Local Property Tax Rates	Local Property Taxes	Total Property Taxes
1	Far Echo Harbor									
	F&W Pump	311	\$ 10,566		\$ 1,057	\$ 9,509	\$ 63	\$ 5.35	\$ 51	\$ 114
	Meters	334	1,767		88	1,679	11	5.35	9	20
	Telemetry	339	4,199	\$ 16,532	600	3,599	24	5.35	19	43
2	Paradise Shores									
	Woodstream Main - 400' of 4" Fusion	331	2,514		50	2,464	16	5.35	13	29
	Main - 300' Liesure Lane	333	1,389		35	1,354	9	5.35	7	16
	Meters	334	5,257	9,160	263	4,994	33	5.35	27	60
3	West Point									
	Meters	334	540		27	513	3	5.35	3	6
	Storage	339	648	1,188	32	616	4	5.35	3	7
4	Waterville Valley Gateway									
	Meters	334	628	628	31	597	4	18.33	11	15
5	Hidden Valley									
	Meters	334	1,625	1,625	81	1,544	10	7.78	12	22
6	Wentworth Cove									
	REPCO Panel	304	8,963		179	8,784	58	17.80	156	214
	Pumpstation upgrades	304	29,633		593	29,040	192	17.80	517	709
	Submersible Pump	311	3,630		363	3,267	22	17.80	58	80
	Water-Right Customer Care Unit	320	10,237		365	9,872	65	17.80	176	241
	Meters	334	502		25	477	3	17.80	8	12
	Telemetry	339	3,952		565	3,387	22	17.80	60	83
	Pressure Tank	339	2,241		1,494	747	5	17.80	13	18
	Compressor	339	1,008	60,166	672	336	2	17.80	6	8
7	Pendelton Cove									
	Meters	334	708	708	35	673	4	17.80	12	16
8	Deer Run									
	Meters	334	351	351	18	333	2	22.27	7	10
9	Woodland Grove									
	Meters	334	458	458	23	435	3	15.39	7	10
10	Echo Lake Woods									
	Meters	334	448	448	22	426	3	15.39	7	9
11	Brake Hill									
	No additions		-	-				13.98	-	-

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DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
2020 PLANT, DEPRECIATION, AND STATE AND LOCAL PROPERTY TAXES

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Div #	Name	Acct #	Non-Revenue Producing	Total Division	Annual Depreciation	Net Plant	State Utility Taxes @ \$6.60	Local Property Tax Rates	Local Property Taxes	Total Property Taxes
12	Tamworth Water Works									
	Well Pump	311	4,665		467	4,199	28	20.64	87	114
	Transducer	339	1,703	6,368	170	1,533	10	20.64	32	42
13	175 Estates									
	Anion Softners	320	7,453	7,453	266	7,187	47	18.33	132	179
14	Deer Cove									
	No additions		-	-				17.20	-	-
15	Lake Ossipee Village									
	Telemetry	339	3,556	3,556	508	3,048	20	8.97	27	47
16	Indian Mound									
	Main - Richard Rd 550 2" HDPE	331	2,754		55	2,699	18	16.70	45	63
	Richard Rd - 3 Services / 1 Blowoff	333	1,066	3,820	27	1,039	7	16.70	17	24
17	Gunstock Glen									
	No additions		-	-				13.19	-	-
18	Dockham Shores									
	No additions		-	-				13.19	-	-
19	Wildwood									
	Subdrive	311	1,864		186	1,678	11	10.34	17	28
	Sump Pump	311	297	2,161	30	267	2	10.34	3	5
50	Administrative									
	Driveway - paving	304	9,723		194	9,529	63	5.35	51	114
	Portable Generator	310	34,350		3,435	30,915	N/A	5.35	N/A	-
	Hypotherm 45 Plasma Cutter	343	2,483		124	2,359	N/A	5.35	N/A	-
	2011 Vermeer Vacuum	343	35,000		1,750	33,250	N/A	5.35	N/A	-
	TEGA Electrofusion Processor	343	4,800		240	4,560	N/A	5.35	N/A	-
	Utility Cloud	347	5,000		1,000	4,000	N/A	5.35	N/A	-
	Front Desk Computer	347	843	92,199	169	674	N/A	5.35	N/A	-
	Total Plant Placed in Service		\$ 206,821	\$ 206,821	\$ 15,240	\$ 191,581	\$ 764		\$ 1,594	\$ 2,358

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT**  
**2020 RETIREMENTS AND RELATED DEPRECIATION**

Account #	Account Description	Cost	2019 Depr Exp	2019 Ending A/D
311	Pumps	\$ 5,874	\$ -	\$ 5,874
331	Mains	1,600	13	1,438
334	Meters	13,884	169	8,046
339	Misc Equipment	3,952	228	2,206
347	Computer Equipment	2,593	258	2,593
<b>Total</b>		<b>\$ 27,903</b>	<b>\$ 668</b>	<b>\$ 20,157</b>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
2021 PLANT, DEPRECIATION, AND STATE AND LOCAL PROPERTY TAXES**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
Div #	Name	Acct #	Non-Revenue Producing	Revenue Producing	Total Division	CoBank T06 Loan	Annual Depr On Non- Rev. Producing	2021 Proforma Depreciation on 2021 Additions	2021 Net Plant	Utility Prop Taxes \$6.60	Local Property Tax Rates	Local Property Taxes	Total Property Taxes
1	Far Echo Harbor												
	Bed Rock Well Pump	311	\$ 510				\$ 51						
	Meters	334	916				46						
	Transducer	339	915		\$ 2,341		131	\$ 228	\$ 2,113	\$ 14	\$ 5.35	\$ 11	\$ 25
2	Paradise Shores												
	Mt. Roberts Badger M2000 Meter	311	\$ 2,704				\$ 270						
	T&D mains - Robin Lane	331	58,763			\$ 58,873	1,175						
	Paving - Robin Lane (Spring '22) - Settlement	331	12,050				241						
	T&D mains - Sunrise Dr.	331	41,523				830						
	Paving - Sunrise Dr. (Spring '22) - Settlement	331	12,050				241						
	T&D mains - Glen Forest Dr.	331	25,692				514						
	Paving - Glen Forest Dr. (Spring '22) - Settlement	331	12,050				241						
	Services - Robin Lane	333	10,000			7,127	250						
	Services - Sunrise Dr.	333	15,000				375						
	Services - Glen forest	333	5,000				125						
	Meters	334	2,269	534	\$ 197,101		113	\$ 4,376	\$ 192,725	\$ 1,272	\$ 5.35	\$ 1,031	\$ 2,303
	Note: The additions listed above in accounts 331 and 333 are all part of the mains/services replacement project at Paradise Shores.												
3	West Point												
	Meters	334	\$ 526	\$ 176	\$ 526		26	\$ 26	\$ 500	\$ 3	\$ 5.35	\$ 3	\$ 6
4	Waterville Valley												
	Meters	334	\$ 188		\$ 188		9	\$ 9	\$ 179	\$ 1	\$ 18.33	\$ 3	\$ 4
5	Hidden Valley												
	Meters	334	\$ 535		\$ 535		27	\$ 27	\$ 508	\$ 3	\$ 7.78	\$ 4	\$ 7
6	Wentworth Cove												
	Meters	334	\$ 565		\$ 565		28	\$ 28	\$ 537	\$ 4	\$ 17.80	\$ 10	\$ 13
7	Pendleton Cove												
	1" Well Meter	311	\$ 420				\$ 42						
	Meters	334	746	145	\$ 1,166		37	\$ 79	\$ 1,087	\$ 7	\$ 17.80	\$ 19	\$ 27
8	Deer Run												
	BRW#1 Meter	311	\$ 250		\$ 250		\$ 25	\$ 25	\$ 225	\$ 1	\$ 22.27	\$ 5	\$ 6
9	Woodland Grove												
	Meters	334	\$ 170		\$ 170		9	\$ 9	\$ 162	\$ 1	\$ 15.39	\$ 2	\$ 4
11	Brake Hill												
	Pump BRW#1	311	\$ 4,257				\$ 426						
	Meters	334	364		\$ 4,621		18	\$ 444	\$ 4,177	\$ 28	\$ 13.19	\$ 55	\$ 83

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.  
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**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
2021 PLANT, DEPRECIATION, AND STATE AND LOCAL PROPERTY TAXES**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l) Local Property Tax Rates	(m) Local Property Taxes	(n) Total Property Taxes
Div #	Name	Acct #	Non-Revenue Producing	Revenue Producing	Total Division	CoBank T06 Loan	Annual Depr On Non- Rev. Producing	2021 Proforma Depreciation on 2021 Additions	2021 Net Plant	Utility Prop Taxes \$6.60			
13	175 Estates												
	1" Inline Meter	311	\$ 420				\$ 42						
	Transducer	339	905		\$ 1,325		129	\$ 171	\$ 1,154	\$ 8	\$ 18.33	\$ 21	\$ 29
15	Lake Ossipee												
	Pumps & Meter	311	\$ 8,508				\$ 851						
	Treatment Equipment	320	18,239		\$ 26,747		657	\$ 1,507	\$ 25,240	\$ 167	\$ 8.97	\$ 226	\$ 393
19	Wildwood												
	Pumpstation	304	\$ 167,416				\$ 4,185						
	Power Generator Equipment	310	23,628				2,363						
	Pumping Equipment	311	22,306				2,231						
	Treatment Equipment	320	20,724				746						
	Tank	330	36,127				795						
	Misc. Equipment	339	3,488		\$ 273,689	\$ 260,000	498	\$ 10,818	\$ 262,871	\$ 1,735	\$ 10.34	\$ 2,718	\$ 4,453
	Note: The additions listed above are all part of the system upgrades at Wildwood.												
50	General Administration												
	Leak Detector w/Headset	339	\$ 5,672				810						
	MagneticLocator	339	1,584				226						
	2021 Sure Trac Alum 7x12 Trailer	341	4,378				876						
	2021 Sure Trac LPDump Trailer 6x10 w/tarp	341	8,231				1,646						
	2021 Ford F350	341	57,308				11,462						
	2021 Dodge Ram 1500	341	70,669				14,134						
	2021 Vermeer Vac Restoration	343	13,285		\$ 161,127		1,898	\$ 31,052	\$ 130,075	\$ -		\$ -	\$ -
	Grand Total		\$ 670,351	\$ 855	\$ 670,351	\$ 326,000	\$ 48,800	\$ 48,800	\$ 621,551	\$ 3,244		\$ 4,109	\$ 7,353

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT**  
**2021 RETIREMENTS AND RELATED DEPRECIATION**

Account	Account Description	Costs	2019 Depr Exp, per Co.	2019 Ending A/D, per Co.
304	Structures	\$ 54,984	\$ 196	\$ 50,154
311	Pumps	25,580	831	22,483
320	Treatment Equipment	5,197	158	3,970
331	Mains	7,049	-	7,049
333	Services	2,760	-	3,385
334	Meters	7,865	242	2,096
339	Misc Equipment	1,703	243	304
341	Transportation Equipment	71,793	13,108	64,063
347	Computer Equipment	5,870	587	2,981
<b>Total</b>		<b>\$ 182,801</b>	<b>\$ 15,365</b>	<b>\$ 156,485</b>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
WAGE INCREASE PER SETTLEMENT**

Attachment B  
Schedule 4

	2022 Wage Increase (a)	Less: Capitalized Wages (b)	Increase in Annual Wages	Increase in Annual Payroll Tax Expense (c)
President	\$ 2,418	\$ (126)	\$ 2,292	\$ 175
Field Supervisor	2,221	(116)	2,105	161
Utility Manager	1,786	(93)	1,693	130
Field Staff	3,675	(192)	3,483	266
Office Staff	2,317	(121)	2,196	168
<b>Total</b>	<b>\$ 12,417</b>	<b>\$ (648)</b>	<b>\$ 11,769</b>	<b>\$ 900</b>

(a) Per Energy 2-18

(b) See Att 1; Sch 3a; Adj #'s 35 and 38

2019 Capitalized Wages (Co's 2019 Ann'l Rpt, Sch F-58, Lines 26-27)	\$ 20,029
2019 Actual Wages (Energy 2-18)	÷ 383,999
Calculated Capitalized Wage Percentage	= <u>5.22%</u>

(c) Multiplied by combined SS and FICA Percentage

7.65%

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT  
SUMMARY**

	<u>Volume Basis</u>	<u>Customer Allocation Basis</u>	<u>POASI</u>	<u>Non - POASI</u>	<u>TOTAL</u>
Revenue Requirement after Tax Effect (Schedule 4b)	\$ 22,368	\$ 2,585	\$ -	\$ 4,410	\$ 29,362
Total Operating Expenses (Schedule 4d)	11,344	2,732	-	1,612	15,688
Less: Other Operating Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues to be Collected via All Water Rates	<u>\$ 33,712</u>	<u>\$ 5,317</u>	<u>\$ -</u>	<u>\$ 6,022</u>	<u>\$ 45,050</u>
Revenues Specific to POASI Special Contract	<u>\$ 33,712</u>	<u>\$ 5,317</u>	<u>\$ -</u>	██████████	<u>\$ 39,028</u>
	<u>CCF Usage</u>	<u>Customers</u>	<u>Customers</u>		
POASI	15,176	1	1		
Paradise Shores	9,496	414	-		
Total	<u>24,672</u>	<u>415</u>	<u>1</u>		
Rates	<u>\$ 1.37 /ccf</u>	<u>\$ 12.81 /cust</u>	<u>\$ -</u> POASI only		
Revenues:					
POASI	\$ 20,736	\$ 13	\$ -	\$ -	<b>\$ 20,749</b>
Paradise Shores	12,975	5,304	-	6,022	24,301
Total	<u>\$ 33,712</u>	<u>\$ 5,317</u>	<u>\$ -</u>	<u>\$ 6,022</u>	<u>\$ 45,050</u>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

**DW 20-187**  
**LAKES REGION WATER COMPANY, INC.**  
**STEP ADJUSTMENT**  
**CALCULATION OF POASI SPECIAL CONTRACT REVENUE ADJUSTMENT**  
**REVENUE REQUIREMENT**

	<u>Volume Basis</u>	<u>Customer Allocation Basis</u>	<u>POASI</u>	<u>Non - POASI</u>	<u>TOTAL</u>
<b>NET PLANT IN RATE BASE:</b>					
Total Utility Plant in Service (Schedule 4c)	201,187	24,146	-	38,915	264,248
Less: Accumulated Depreciation (Schedule 4c)	<u>(10,236)</u>	<u>(2,016)</u>	<u>-</u>	<u>(1,161)</u>	<u>(13,413)</u>
Net Utility Plant in Service	<u>190,951</u>	<u>22,130</u>	<u>-</u>	<u>37,754</u>	<u>250,835</u>
Contributions in Aid of Construction (CIAC)	-	-	-	-	-
Less: Accumulated Amortization - CIAC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Contributions in Aid of Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Utility Plant in Rate Base</b>	<u>190,951</u>	<u>22,130</u>	<u>-</u>	<u>37,754</u>	<u>250,835</u>
<b>WORKING CAPITAL IN RATE BASE:</b>					
Materials and Supplies	-	-	-	-	-
Deferred Assets	-	-	-	-	-
Customer Deposits	-	-	-	-	-
Accumulated Deferred Income Taxes - Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Calculation of Cash Working Capital:					
Operation & Maintenance Expenses	2,694	-	-	-	2,694
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	<u>554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>554</u>
Total Working Capital in Rate Base	<u>554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>554</u>
<b>Total Rate Base</b>	<u>191,505</u>	<u>22,130</u>	<u>-</u>	<u>37,754</u>	<u>251,389</u>
Rate of Return @ Schedule 1a	x 8.52%	x 8.52%	x 8.52%	x 8.52%	x 8.52%
Revenue Requirement before Tax Effect	16,310	1,885	-	3,215	21,410
Income Tax Gross-up Factor @ 0.37142	<u>6,058</u>	<u>700</u>	<u>-</u>	<u>1,194</u>	<u>7,952</u>
<b>Revenue Requirement after Tax Effect</b>	<u>\$ 22,368</u>	<u>\$ 2,585</u>	<u>\$ -</u>	<u>\$ 4,410</u>	<u>\$ 29,362</u>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.



DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
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	2,704	-	-	-	2,704
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	164,642	-	-	-	164,642
333.40 Services	-	-	-	31,389	31,389
334.40 Meters and Meter Installation	-	-	-	7,526	7,526
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common) (\$7,256 x 22.89%)	1,661	-	-	-	1,661
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements (\$9,723 x 22.89%)	-	2,226	-	-	2,226
310.50 Power Generation Equipment (\$34,350 x 22.89%)	-	7,863	-	-	7,863
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction (\$12,609 x 22.89%)	2,886	-	-	-	2,886
341.52 Transportation Equipment - Pickups (\$127,977 x 22.89%)	29,294	-	-	-	29,294
343.50 Tools, Shop, and Garage Equipment (\$55,568 x 22.89%)	-	12,720	-	-	12,720
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment (\$5,843 x 22.89%)	-	1,337	-	-	1,337
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Utility Plant in Service	<u>\$ 201,187</u>	<u>\$ 24,146</u>	<u>\$ -</u>	<u>\$ 38,915</u>	<u>\$ 264,248</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	(270)	-	-	-	(270)
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	(3,293)	-	-	-	(3,293)
333.40 Services	-	-	-	(785)	(785)
334.40 Meters and Meter Installation	-	-	-	(376)	(376)
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common) (\$1,036 x 22.89%)	(237)	-	-	-	(237)
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements (\$194 x 22.89%)	-	(44)	-	-	(44)
310.50 Power Generation Equipment (\$3,435 x 22.89%)	-	(786)	-	-	(786)
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction (\$2,522 x 22.89%)	(577)	-	-	-	(577)
341.52 Transportation Equipment - Pickups (\$25,596 x 22.89%)	(5,859)	-	-	-	(5,859)
343.50 Tools, Shop, and Garage Equipment (\$4,012 x 22.89%)	-	(918)	-	-	(918)
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment (\$1,169 x 22.89%)	-	(268)	-	-	(268)
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Accumulated Depreciation	<u>\$ (10,236)</u>	<u>\$ (2,016)</u>	<u>\$ -</u>	<u>\$ (1,161)</u>	<u>\$ (13,413)</u>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
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	270	-	-	-	270
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	3,293	-	-	-	3,293
333.40 Services	-	-	-	785	785
334.40 Meters and Meter Installation	-	-	-	376	376
335.40 Hydrants	-	-	-	-	-
339.41 Other Miscellaneous Equipment (Division)	-	-	-	-	-
339.42 Other Miscellaneous Equipment (Common) (\$1,036 x 22.89%)	237	-	-	-	237
303.50 Land and Land Rights	-	-	-	-	-
304.50 Structures and Improvements (\$194 x 22.89%)	-	44	-	-	44
310.50 Power Generation Equipment (\$3,435 x 22.89%)	-	786	-	-	786
340.50 Office Furniture and Equipment	-	-	-	-	-
341.51 Transportation Equipment - Construction (\$2,522 x 22.89%)	577	-	-	-	577
341.52 Transportation Equipment - Pickups ((\$25,596 - \$13,108) x 22.89%)	2,859	-	-	-	2,859
343.50 Tools, Shop, and Garage Equipment (\$4,012 x 22.89%)	-	918	-	-	918
344.50 Laboratory Equipment	-	-	-	-	-
346.00 Communication Equipment	-	-	-	-	-
347.50 Miscellaneous Equipment ((\$1,169 - \$258) x 22.89%)	-	209	-	-	209
348.50 Other Tangible Plant (Rounding)	-	-	-	-	-
Total Depreciation Expense	<u>\$ 7,236</u>	<u>\$ 1,957</u>	<u>\$ -</u>	<u>\$ 1,161</u>	<u>\$ 10,354</u>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
STEP ADJUSTMENT  
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) (\$2,292 x 22.89%)	525	-	-	-	525
Field Personnel (3.0) (\$5,588 x 22.89%)	1,279	-	-	-	1,279
Office (0.5) (\$1,693 x 50% x 22.89%)	194	-	-	-	194
Office (2.5) ((\$2,196 + (\$1,693 x 50%)) x 22.89%)	-	696	-	-	696
Total Salary and Wages Expense	1,998	696	-	-	2,694
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	1,998	696	-	-	2,694
Total Operation & Maintenance Expenses	1,998	696	-	-	2,694
Depreciation Expense (Schedule 4c)	7,236	1,957	-	1,161	10,354
Amortization of Contributions in Aid of Construction	-	-	-	-	-
Amortization Expense - Other	-	-	-	-	-
Payroll Tax Expense (Allocated by Wages)	153	53	-	-	206
Property Tax Expense	1,957	26	-	451	2,434
Total Operating Expenses	\$ 11,344	\$ 2,732	\$ -	\$ 1,612	\$ 15,688

**Property Tax Exp - Customer Allocation Basis:**

\$114 x 22.89% = \$26

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
COMPUTATION OF CUSTOMER RATES  
PERMANENT INCREASE ONLY**

Proposed Annual Water Revenue from General Customers (Permanent / Schedule 1) \$ 1,378,827

Less: Annual Operating Revenue - WVG Community Pool

Current Authorized Rate Per Tariff	\$	1,717.28
1 + Percentage Increase in Revenue Requirement	x	1.0312 <span style="border: 1px solid black; padding: 2px;">(1,770.81)</span>

Less: Annual Operating Revenue - Non-metered Customers

Annual Water Revenue from General Customers less Annual Revenue - WVG Pool	\$	1,377,056
Total Consolidated Rate Customers	÷	1,811
Annual Revenue Requirement per Customer		<span style="border: 1px solid black; padding: 2px;">\$ 760.38</span>
Total Non-metered Customers	x	639 <span style="border: 1px solid black; padding: 2px;">\$ (485,886)</span>

Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge \$ 891,171

Calculation of Average Metered Rate per Customer:  
 $\$ 593.24$  (Minimum Charge) +  $\$ 5.77$  (Metered Charge) x (  $33,937$  ccf ÷  $1,172$  metered customers)  
 = **\$ 760.38** average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:  
 Present Annual Minimum Charge Per Tariff: (X) \$ 581.70  
 Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y) ÷ \$ 5.66  
 Proportion of Present Minimum Charge to Present Consumption Charge: (X ÷ Y) 102.8

Calculation of Consumption Charge:

X	+	Y	*	33,937	÷	1,172	=	\$ 760.38
Y	*	102.8	+	Y	*	29.0	=	\$ 760.38
				Y	*	131.7	=	\$ 760.38
				Y	=	<span style="border: 1px solid black; padding: 2px;">\$ 5.77</span>	*	33,937 = <span style="border: 1px solid black; padding: 2px;">\$ (195,896)</span>

Annual Revenue Requirement Collected through Minimum Charge \$ 695,274

Calculation of Annual Minimum Charge:

X	+	Y	*	33,937	÷	1,172	=	\$ 760.38
		X	+	\$ 5.77	*	29.0	=	\$ 760.38
				X	+	\$ 167.15	=	\$ 760.38
				X	=	<span style="border: 1px solid black; padding: 2px;">\$ 593.24</span>	*	1,172 = <span style="border: 1px solid black; padding: 2px;">\$ (695,274)</span>

**Remainder of Annual Water Revenue from General Customers** \$ -

Conversion of Metered Consumption from Gallons to CCF:

2019 Total Consumption by Metered Customers (Gallons)	36,738,000
Less: 2019 Suissevale Metered Consumption (Gallons)	<u>(11,351,000)</u>
2019 Consumption by Metered Customers (Gallons)	25,387,000
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	÷ 748.05
2019 Consumption by Metered Customers (CCF)	<u><u>33,937</u></u>

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
REPORT OF PROPOSED RATE CHANGES  
PERMANENT INCREASE ONLY

Attachment C  
Schedule 1b

Permanent Revenues:	Number of Customers	Proforma Test Year Revenues	Proposed		Permanent Revenues
			Change		
Waterville Valley Gateway Pool	1	\$ 1,717	\$ 54	3.13%	\$ 1,771
Unmetered General Customers:					
Current Consolidated Unmetered General Customers	590	437,087	11,540	2.64%	448,627
Proposed Additional Consolidated Unmetered General Customers (Wildwood)	49	25,645	11,614	45.29%	37,259
Total Proposed Consolidated Unmetered General Customers	639	462,732	23,154	5.00%	485,886
Metered General Customers:					
Current Consolidated Metered General Customers	1,111	818,287	17,390	2.13%	835,677
Proposed Additional Consolidated Metered General Customers (Dockham Shores)	61	54,413	1,081	1.99%	55,494
Total Proposed Consolidated Metered General Customers	1,172	872,700	18,471	2.12%	891,171
Total Proposed Consolidated Unmetered and Metered General Customers	1,812	1,337,149	41,678	3.12%	1,378,827
Suissevale Special Contract	1	210,768	-	0.00%	210,768
Total Water Sales	1,813	1,547,917	41,678	2.69%	1,589,595
Other Operating Revenues	N/A	50,248	-	0.00%	50,248
Total Operating Revenues	1,813	\$ 1,598,165	\$ 41,678	2.61%	\$ 1,639,843

Permanent Rates:	Number of Customers	Existing Rates	Proposed		Permanent Rates
			Change		
Waterville Valley Gateway Pool (Annual)	1	\$ 1,717.28	\$ 53.53	3.12%	\$ 1,770.81
Unmetered General Customers (Annual):					
Unmetered General Customers - Current Consolidated	590	\$ 739.56	\$ 20.82	2.82%	\$ 760.38
Unmetered General Customers - Wildwood	49	\$ 522.00	\$ 238.38	45.67%	\$ 760.38
Metered General Customers:					
Annual Charge - Current Consolidated	1,111	\$ 581.70	\$ 11.54	1.98%	\$ 593.24
Annual Charge - Dockham Shores	61	\$ 581.68	\$ 11.56	1.99%	\$ 593.24
Meter Charge (per ccf) - Current Consolidated	1,111	\$ 5.66	\$ 0.11	1.98%	\$ 5.77
Meter Charge (per ccf) - Dockham Shores	61	\$ 5.66	\$ 0.11	1.98%	\$ 5.77

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
COMPUTATION OF CUSTOMER RATES  
PERMANENT INCREASE AND STEP ADJUSTMENT**

Proposed Annual Water Revenue from General Customers (Permanent & Step Adjustment / Schedule 1) \$ 1,523,690

Less: Annual Operating Revenue - WVG Community Pool

Current Authorized Rate Per Tariff	\$	1,717.28	
1 + Percentage Increase in Revenue Requirement	x	1.1395	<b>(1,956.85)</b>

Less: Annual Operating Revenue - Non-metered Customers

Annual Water Revenue from General Customers less Annual Revenue - WVG Pool	\$	1,521,733	
Total Consolidated Rate Customers	÷	1,811	
Annual Revenue Requirement per Customer		<b>\$ 840.27</b>	
Total Non-metered Customers	x	639	<b>\$ (536,934)</b>

Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge \$ 984,799

Calculation of Average Metered Rate per Customer:  
 $\$ 655.56$  (Minimum Charge) +  $\$ 6.38$  (Metered Charge) x (  $33,937$  ccf ÷  $1,172$  metered customers)  
 = **\$ 840.27** average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:

Present Annual Minimum Charge Per Tariff: (X)	\$	581.70	
Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y)	÷	\$ 5.66	
Proportion of Present Minimum Charge to Present Consumption Charge: (X ÷ Y)		102.8	

Calculation of Consumption Charge:

X	+	Y	*	33,937	÷	1,172	=	\$ 840.27
Y	*	102.8	+	Y	*	29.0	=	\$ 840.27
				Y	*	131.7	=	\$ 840.27
				Y	=	<b>\$ 6.38</b>	*	33,937 = <u style="border-bottom: 1px solid black;">\$ (216,477)</u>

Annual Revenue Requirement Collected through Minimum Charge \$ 768,322

Calculation of Annual Minimum Charge:

X	+	Y	*	33,937	÷	1,172	=	\$ 840.27
		X	+	\$ 6.38	*	29.0	=	\$ 840.27
				X	+	\$ 184.71	=	\$ 840.27
				X	=	<b>\$ 655.56</b>	*	1,172 = <u style="border-bottom: 1px solid black;">\$ (768,322)</u>

**Remainder of Annual Water Revenue from General Customers** **\$ -**

Conversion of Metered Consumption from Gallons to CCF:

2019 Total Consumption by Metered Customers (Gallons)	36,738,000
Less: 2019 Suissevale Metered Consumption (Gallons)	(11,351,000)
2019 Consumption by Metered Customers (Gallons)	25,387,000
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	÷ 748.05
2019 Consumption by Metered Customers (CCF)	<b>33,937</b>

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.

DW 20-187  
LAKES REGION WATER COMPANY, INC.  
REPORT OF PROPOSED RATE CHANGES  
PERMANENT INCREASE AND STEP ADJUSTMENT

Permanent and Step Revenues:	Number of Customers	Pro Forma Test Year Revenues	Proposed		Permanent + Step Revenues
			Change		
Waterville Valley Gateway Pool	1	\$ 1,717	\$ 240	13.97%	\$ 1,957
Unmetered General Customers:					
Current Consolidated Unmetered General Customers	590	437,087	58,674	13.42%	495,761
Proposed Additional Consolidated Unmetered General Customers (Wildwood)	49	25,645	15,528	60.55%	41,173
Total Proposed Consolidated Unmetered General Customers	639	462,732	74,202	16.04%	536,934
Metered General Customers:					
Current Consolidated Metered General Customers	1,111	818,287	105,188	12.85%	923,475
Proposed Additional Consolidated Metered General Customers (Dockham Shores)	61	54,413	6,911	12.70%	61,324
Total Proposed Consolidated Metered General Customers	1,172	872,700	112,099	12.85%	984,799
Total Proposed Consolidated Unmetered and Metered General Customers	1,812	1,337,149	186,541	13.95%	1,523,690
Suissevale Special Contract	1	210,768	20,749	9.84%	231,517
Total Water Sales	1,813	1,547,917	207,290	13.39%	1,755,207
Other Operating Revenues	N/A	50,248	-	0.00%	50,248
Total Operating Revenues	1,813	\$ 1,598,165	\$207,290	12.97%	\$ 1,805,455

Permanent and Step Rates:	Number of Customers	Existing Rates	Proposed		Permanent + Step Rates
			Change		
Waterville Valley Gateway Pool (Annual)	1	\$ 1,717.28	\$ 239.57	13.95%	\$ 1,956.85
Unmetered General Customers (Annual):					
Unmetered General Customers - Current Consolidated	590	\$ 739.56	\$ 100.71	13.62%	\$ 840.27
Unmetered General Customers - Wildwood	49	\$ 522.00	\$ 318.27	60.97%	\$ 840.27
Metered General Customers:					
Annual Charge - Current Consolidated	1,111	\$ 581.70	\$ 73.86	12.70%	\$ 655.56
Annual Charge - Dockham Shores	61	\$ 581.68	\$ 73.88	12.70%	\$ 655.56
Meter Charge (per ccf) - Current Consolidated	1,111	\$ 5.66	\$ 0.72	12.70%	\$ 6.38
Meter Charge (per ccf) - Dockham Shores	61	\$ 5.66	\$ 0.72	12.70%	\$ 6.38

**DW 20-187  
LAKES REGION WATER COMPANY, INC.  
REPORT OF PROPOSED RATE CHANGES  
REVENUE & RATE COMPARISON**

	Number of Customers	Pro Forma Test Year Revenues	Approved Temporary Revenues	Change			Proposed Revenue	
				Temp to Perm	Perm to Perm+Step	Temp to Perm+Step	Permanent	Permanent +Step
<b>Permanent and Step Revenues:</b>								
Waterville Valley Gateway Pool	1	\$ 1,717	\$ 1,795	\$ (24)	\$ 186	\$ 162	\$ 1,771	\$ 1,957
<b>Unmetered General Customers:</b>								
Current Consolidated Unmetered General Customers	590	437,087	456,023	(7,396)	47,134	39,738	448,627	495,761
Proposed Additional Consolidated Unmetered General Customers (Wildwood)	49	25,645	33,251	4,007	3,915	7,922	37,259	41,173
Total Proposed Consolidated Unmetered General Customers	639	462,732	489,274	(3,389)	51,048	47,660	485,886	536,934
<b>Metered General Customers:</b>								
Current Consolidated Metered General Customers	1,111	818,287	855,897	(20,220)	87,798	67,578	835,677	923,475
Proposed Additional Consolidated Metered General Customers (Dockham Shores)	61	54,413	54,413	1,080	5,830	6,911	55,494	61,324
Total Proposed Consolidated Metered General Customers	1,172	872,700	910,310	(19,139)	93,629	74,489	891,171	984,799
Total Proposed Consolidated Unmetered and Metered General Customers	1,812	1,337,149	1,401,379	(22,552)	144,863	122,311	1,378,827	1,523,690
Suissevale Special Contract	1	210,768	210,768	-	20,749	20,749	210,768	231,517
Total Water Sales	1,813	1,547,917	1,612,147	(22,552)	165,612	143,060	1,589,595	1,755,207
Other Operating Revenues	N/A	50,248	50,248	-	-	-	50,248	50,248
Total Operating Revenues	1,813	\$ 1,598,165	\$ 1,662,395	\$ (22,552)	\$ 165,612	\$ 143,060	\$ 1,639,843	\$ 1,805,455

	Number of Customers	Existing Rates	Approved Temporary Rates	Change			Proposed Rates	
				Temp to Perm	Perm to Perm+Step	Temp to Perm+Step	Permanent	Permanent +Step
<b>Permanent and Step Rates:</b>								
Waterville Valley Gateway Pool (Annual)	1	\$ 1,717.28	\$ 1,794.68	\$ (23.87)	\$ 186.04	\$ 162.17	\$ 1,770.81	\$ 1,956.85
<b>Unmetered General Customers (Annual):</b>								
Unmetered General Customers - Current Consolidated	590	\$ 739.56	\$ 772.92	\$ (12.54)	\$ 79.89	\$ 67.35	\$ 760.38	\$ 840.27
Unmetered General Customers - Wildwood	49	\$ 522.00	\$ 678.60	\$ 81.78	\$ 79.89	\$ 161.67	\$ 760.38	\$ 840.27
<b>Metered General Customers:</b>								
Annual Charge - Current Consolidated	1,111	\$ 581.70	\$ 607.92	\$ (14.68)	\$ 62.33	\$ 47.64	\$ 593.24	\$ 655.56
Annual Charge - Dockham Shores	61	\$ 581.68	\$ 581.68	\$ 11.56	\$ 62.33	\$ 73.88	\$ 593.24	\$ 655.56
Meter Charge (per ccf) - Current Consolidated	1,111	\$ 5.66	\$ 5.90	\$ (0.13)	\$ 0.61	\$ 0.48	\$ 5.77	\$ 6.38
Meter Charge (per ccf) - Dockham Shores	61	\$ 5.66	\$ 5.66	\$ 0.11	\$ 0.61	\$ 0.72	\$ 5.77	\$ 6.38

This schedule represents not-to-exceed amounts that are subject to subsequent DOE Audit Staff examination and DOE Staff review.



CHAIRMAN

COMMISSIONERS

Kathryn M. Bailey  
Michael S. Giaimo

EXECUTIVE DIRECTOR

Debra A. Howland

STATE OF NEW HAMPSHIRE



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NHPUC 4NOV19AM11:56

November 4, 2019

Debra A. Howland  
Executive Director  
New Hampshire Public Utilities Commission  
21 South Fruit Street  
Concord, NH 03301

Re: IR 19-005 Investigation to Determine a Method for Setting a  
Generic Return on Equity for Small Water Utilities  
Commission Staff Report on Technical Session

Dear Ms. Howland:

Commission Staff (Staff) met with representatives of Lakes Region Water Company, Abenaki Water Company, Hampstead Area Water Company and the Office of Consumer Advocate at a technical session held at the Commission's offices on October 1, 2019. The parties reviewed written comments from the water companies and discussed further changes and clarifications to the draft rule N. H. Code of Admin. Rules, Puc 610.

As a result of discussions held at the technical session, Staff has further revised its suggested rule and submits the attached rule for the Commission's consideration. Changes to calculating the generic return on equity (ROE) include, using the minimum number of quarters that total at least 10 rate cases, using a weighted average of the prior ROEs and updating the ROE before hearing.

Staff believes that these changes further clarify and improve the rule and recommends that the Commission adopt this draft rule as its initial proposal.

Very truly yours,

F. Anne Ross

cc: Service List  
Stakeholder List

Attachments

Initial Proposal 7-xx-19 26

b. ~~The rate impact on the average customer's annual bill;~~

c. ~~The capital additions and the federal or state mandates that necessitated the need for rate relief; and~~

d. ~~The customers' right to participate in the review of the requested rate increase;~~

~~(5) A copy of the notice required in (4), along with an affidavit of mailing, shall be filed with the commission within 15 days of the acceptance of the petition as referred to in (b) below.~~

~~(b) Failure to comply with any of the provisions and requirements set forth in (a) shall result in the immediate rejection of the petition if the utility has failed to respond to any notice issued by the commission required by RSA 541-A:29.I.~~

~~Puc 610.03 Generic Return on Equity.~~

~~(a) At least once during any 12 month period following the adoption of these rules the commission shall establish a generic return to be applied to the equity invested in the a small water distribution system using the discounted cash flow methodology. A small water distribution system may elect to use the generic rate of return in any rate proceeding and, if it elects to use the generic rate of return, it shall update the calculation before a final hearing in the rate case.~~

~~(b) For the purposes of this section, the commission shall assume that the return on equity for regulated gas and water utilities as published by the Regulatory Research Associates for recent calendar years DCF model is based on the concept that are representative of what value stockholders currently value place on a share of stock for water distribution systems at the present value of the expected cash flow from that share of stock, and that cash flow will grow at the same rate from the present to perpetuity.~~

~~(c) For purposes of this section, the commission shall assume that the value placed on utility preferred stock plus 350 basis points as published by Value Line is representative of what value stockholders place on a share of stock for water distribution systems.~~

~~(de) For the purposes of this section, the generic return on equity, rounded down to 2 decimal places, shall be derived as follows: sample of companies used in computing k shall consist of non-California water utilities listed in the most current issue of Value Line Investment Survey or other recognized financial source that have consistent data for at least a 10-year period of time.~~

~~(1) The baseline return on equity will be calculated using the average of the weighted average of the authorized return of water utility rate cases during the most recent calendar quarters with a total minimum of 10 observations and the weighted average of the median authorized return on equity for gas utilities during the most recent calendar quarters with a total minimum of 10 observations. Observations are the number of rate cases in the quarter used to calculate the average water and median gas returns on equity and weighted by the number of observations in a quarter divided by the total observations over the number of quarters with a minimum of 10 observations. Following that calculation, the resulting return will be averaged with an amount resulting from adding 350 basis points to the value of the preferred utility stock as most recently reported by Value Line. The result of the 2 calculations shall yield the baseline return on equity for this section.~~

~~(2) For purposes of this section, the authorized average return of equity for water utilities and the number of cases will be as reported by the Regulatory Research Associates, 'RRA Water Advisory: Major Rate Case Decisions.' The median of authorized return on equity for gas utilities will be as reported by the Regulatory Research Associates, 'RRA Regulatory Focus: Major Rate Case~~

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Decisions.<sup>24</sup> Utility preferred stock values will be the Value Line estimated yield on "Utility A" preferred stocks published weekly.

(3) Rate Case Expense Savings Adder: 50 basis points will be added to the baseline return on equity;

(4) Capital Structure Adder will be added to the baseline return on equity for a balanced capital structure:

a. For a capital structure with equity of 35 to 40 percent, the adder will be 10 basis points;

b. For a capital structure with equity of 40 to 44 percent, the adder will be 15 basis points;

c. For a capital structure with equity of 45 to 55 percent, the adder will be 25 basis points; and

d. For a capital structure with equity of 56-60 percent, the adder will be 10 basis points.

(5) An Exemplary Performance Adder of up to 50 basis points shall be added to the baseline return on equity if the commission determines that a small water utility substantially exceeds utility performance of similarly situated small water utilities in a rate filing in any of the following areas:

a. Development of an Asset Management Program for achieving and maintaining the desired level of service at the lowest appropriate cost to customers;

b. Reduction in system leaks and unaccounted for water;

c. Cost containment initiatives;

d. Improved water quality;

e. Improved customer service.

(6) A Non-compliance Deduction: up to 50 basis points may be deducted from the baseline return on equity when a small water utility files for a rate increase if the commission determines that the utility has repeatedly not complied with regulatory requirements within the past 2 years.

a. Staff or any party to the rate proceeding may request a deduction for non-compliance;

b. There will be no deduction for non-compliance of an acquired utility if the acquired utility was materially out of compliance when acquired and the acquiring utility has implemented an approved plan to achieve compliance. Compliance plans must be approved by the by the regulatory authority with jurisdiction.

(d) For the purposes of this section cash flow shall be measured using both dividends and earnings, with a 3:1 weighting of dividends to earnings, reflecting the view that investors discount that which they receive, but are also concerned with the source of the cash flow.

Puc 610.034 Eligibility Right to Challenge Use of the Generic Return on Equity. The commission staff, the office of consumer advocate, a customer or other interested party, may challenge the generic return on equity used by a small water distribution system in a rate filing with the commission. A small water system shall not be eligible for rate relief pursuant to this section within 2 years after the issuance of a final order under Puc 610 or Puc 1600.

Baseline ROE  
 Minimum Number of Quarters w/ at Least 10 Observations  
 Calculated on 05/04/2021  
 (Based on most recent publications)

	1st Quarter 2021	Number of of Rate Observations*
Gas median ROE (Note 1)	9.74	10
Water average ROE (Note 2)	9.35	12
Average of Gas/Water	9.541	
 Average (rounded down)	 9.54	
 Utility A Preferred Stock (Note 3)	 6.22	
Adder: 350 basis points	3.50	
	9.72	
 Baseline ROE	 9.63	
(Average of Gas/Water & Preferred Stock)		

\* Number of observations indicates the number of ROE datapoints available, not the number of rate cases completed during the period.

Notes (Source Document)

- 1) Most recent source: RRA Regulatory Focus, Major Rate Case Decisions, Jan-Mar 2021 (04/28/2021)  
 Weighted average ROE of 1 quarter, ending 1st quarter 2021 \*\*  
 Weighted by # of observations in the quarter as percent of total observations
- 2) Most recent source: RRA Water Advisory, Major Rate Case Decisions — January – March 2021, 04/28/2021  
 Weighted average ROE of 9 quarters ending 1st quarter 2021 \*\*  
 Weighted by # of observations in the quarter as percent of total observations
- 3) Value Line Selection & Opinion (May 7, 2021)  
 (p. 485) Preferred Stock - Utility A

- 1) Most recent source: RRA Regulatory Focus, Major Rate Case Decisions, Jan-Mar 2021 (04/28/2021)  
 Weighted average ROE of 1 quarter, ending 1st quarter 2021 \*\*  
 Weighted by # of observations in the quarter as percent of total observations

Median authorized ROEs by quarter, January 2021-March 2021

Year	Period	ROE (%)	Number of Observations *	Weighted ROE (%)
	Quarter			
2021	1	9.74	<u>10</u>	9.74
			10	
	Weighted Average Median ROE			9.74

\* Number of observations indicates the number of ROE datapoints available, not the number of rate cases completed during the period.

\*\* **Based on minimum number of quarters with at least 10 observations**

2) Most recent source: RRA Water Advisory, Major Rate Case Decisions — January – March 2021, 04/28/2021  
 Weighted average ROE of 9 quarters ending 1st quarter 2021 \*\*  
 Weighted by # of observations in the quarter as percent of total observations

Year	Quarter	ROE (%)	Number of Observations *	Weighted ROE
2019	1	9.57%	3	2.39%
2019	2	9.70%	2	1.62%
2019	3	9.80%	1	0.82%
2019	4	NA	0	NA
2020	1	8.48%	2	1.41%
2020	2	9.50%	1	0.79%
2020	3	8.80%	1	0.73%
2020	4	9.50%	2	1.58%
2021	1	NA	0	NA
			12	

Weighted Average ROE of 9 quarters. 9.35%

\* Number of observations indicates the number of ROE datapoints available, not the number of rate cases completed during the period.  
 \*\*Based on minimum number of quarters with at least 10 observations

**STATE OF NEW HAMPSHIRE**  
Inter-Department Communication

**DATE:** July 30, 2021

**FROM:** Audit Staff, Department of Energy

**SUBJECT:** Lakes Region Water Company, Inc.  
DW 20-187  
**FINAL Audit Report**

**TO:** Jayson Laflamme, Assistant Director Water Division  
David Goyette, Utility Analyst III  
Christopher Tuomala, Hearings Examiner

**Introduction**

Lakes Region Water Company, Inc., (LRWC, Company) is a regulated public utility that provides water service to approximately 1,615 customers. On January 15, 2021, LRWC filed for an increase in consolidated rates of 18.10% or alternatively, 17.21% for LRWC general customers, 149.07% for Dockham Shores customers, and 172.81% for Wildwood customers.

The Audit Staff of the Department of Energy (Audit) has reviewed the books and records of the Lakes Region Water Company, Inc. for the test year 2019, and appreciates the assistance provided to us by Leah Valladares, Utility Finance Manager.

**Commission Orders**

Since the DW 15-209 2014 test year there have been 23 Commission Orders. The chart below summarizes the Orders:

## Attachment E

<u>Docket</u>	<u>Order</u>	<u>Order Date</u>	<u>Order description</u>
DW14-285	25,753	1/13/2015	approve \$290,250 LTD CoBank \$129,775 for Indian Mound, \$160,475 for four Ford Trucks
DW15-209	25,809	9/4/2015	suspend proposed tariff and schedule PHC for September 30, 2015
DW15-209	25,862	1/29/2016	approve temporary rates
DW16-427	25,895	5/6/2016	approval of LTD \$41,730 for Ford F150 through Ford Motor Credit
DW16-619	25,964	11/10/2016	proposal to purchase Dockham Shores Effective July 24, 2017
DW16-619	25,964	11/10/2016	purchase Dockham Shores, finance up to \$135k, modify DS tariff, step adjust \$6,620 addtl rev for cap improvements
DW15-209	25,969	11/28/2016	approve rate increase, transfer land into rate base, , vehicles depreciate 5 years.
DW16-834	25,983	1/31/2017	grant in part, deny in part motion to deny complaint re Mykytiuk complaint
dw16-854	25,984	1/31/2017	approve ltd CoBank \$265000 Paradise Shores and Indian Mound at 5.1%
DW16-854	25,996	3/3/2017	amend order 25,984-ltd not to exceed 6.6% same amount, same purpose
DW16-834	26,014	5/5/2017	refund \$ collected from R. Mykytiuk and do not impose second base charge unless and until in tariff.
DW 15-209	26,028	6/21/2017	recover rate case expenses and diff between temp and perm through \$11.73 surcharge over 8 billing quarters
DW17-146	26,069	11/3/2017	authority to borrow \$148,862 from Ford Motor credit to purchase 3 vehicles
DW17-176	OON	1/3/2018	petition to purchase Wildwood Water
DW18-026	OON	3/29/2018	joint petition for return on equity
DW15-209	26,143	6/8/2018	approve step adjustmt for main and service replacement projects Paradise Dr and Captain Lovewell Lane
DW17-176	26,144	6/15/2018	approve LRWC acquire WWC assets/ franchise, WWC tariff now LRWC, LRWC will book as deferred asset
DW16-619	26,272	7/11/2019	step adjustment for Dockham Shores customers only-\$6,620 revenue adjustment vs. request for \$53,894-cap set.
DW 19-155	26,310	11/25/2019	authorized to borrow \$36,469 from Ford for new F-150 at 1.9% for 5 years
DW19-177	26,329	1/31/2020	suspend Dockham's tariff and set PHC for March 4, 2020
DW18-056	26,340	3/26/2020	direct LRWC to record annual and cumulative reg liab to track tax savings realized from corp tax rate decrease and record reg liab equiv to its calculated excess deferred income tax reserve
DW18-056	26,360	5/27/2020	deny motion for rehearing of order 26,340
DW19-177	26,446	1/28/2021	approve rates for Dockham Shores customers to be the LRWC consolidated general service metered customer rates

### Allocations

The Company charges costs directly through an affiliate agreement with LRW Water Services Inc., most recently revised and signed on October 31, 2013. There are no specific overheads as they are included in the directly charged hourly rates. The Company charges labor at \$50 per hour and \$75 per hour for overtime. The hourly rates include the vehicle, employee hourly pay rate, payroll taxes, employee benefits, fuel vehicle costs, truck maintenance, insurance, and depreciation. The Company has a separate fee schedule for equipment rental and a \$50 per month charge for office personnel for tasks such as answering phone messages/receiving faxes. Testing for compliance with the fee schedules was performed within the Plant and the Operations and Maintenance portions of this report.

### Minutes of the Board of Directors

The Company provided the annual Shareholders' and Directors' Meeting Minutes for 2016, 2017, 2018, 2019 and 2021. There were no board meetings during 2020. Audit reviewed the May 16, 2019 minutes of the Shareholders meeting which voted to elect the following members to the Board:

Barbara Mason	Thomas Albert Mason	Susan Mason Ph.D.
Fred Malatesta	Amy Mason	Gary Odorardi

The Shareholders meeting duly adjourned and the Director's Meeting was called to order. In that meeting, the Board of Directors elected the following officers:



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Thomas Albert Mason – President  
 Susan Mason Ph.D. Board of Directors  
 Amy Mason - Secretary

Barbara Mason - Treasurer  
 Fred Malatesta – Board of Directors  
 Gary Odorardi – Board of Directors

Also approved was the re-appointment of Leah Valladares, the Utility Finance Manager, to the Assistant Secretary and Assistant Treasurer positions.

In the Directors' meeting, there was the presentation of the Financials, discussions regarding the 2019 Capital Improvements Projects, the \$400,000 term loan from CoBank, and the Eden Lane pit. The meeting was then duly adjourned.

### **External Financial Audit**

The Company states that they do not have a management or financial audit. An Independent Accountants' Review Report was provided in Tab 2 of the filing covering the years ending 12/31/2018 and 12/31/2019 and was performed by Leone, McDonnell and Roberts from Moultonboro, NH. The independent accountant's review concluded that *"based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America."*

### **Internal Controls**

The Company stated in the Audit Questionnaire that the bank reconciliations are performed on a monthly basis for all the cash accounts and that cash receipts are deposited daily, Monday through Friday. The check signing authority is dedicated to the Utility Finance Manager, Leah Valladares and the President, Thomas Mason. Management approves all write-offs of accounts receivable balances. The payroll register is approved by the Utility Finance Manager before releasing payroll. Materials and Supplies inventory is reconciled at year-end with the last physical inventory completed in December of 2020.

### **Plant in Service**

As of December 31, 2019, Utility Plant in Service summed to \$6,596,427 per the general ledger and the NHPUC annual report schedule F-8 – Utility Plant in Service. Filing schedule 3, Rate Base Plant in Service totals \$6,816,706.

Utility Plant in Service (101)	\$ 6,596,427
Construction Work in Progress (105)	\$ <u>220,279</u>
Total Utility Plant (101 – 106)	\$ 6,816,706

### **Additions and Retirements to Plant**

Activity since the prior audit (DW 15-209, test year ended 2014) was reviewed with the following additions, retirements and adjustments noted within each PUC annual report:

## Attachment E

2015	\$5,285,582	representing a 4.4% increase over the 2014 balance
2016	\$5,608,702	representing a 6.6% increase over the 2015 balance
2017	\$6,225,342	representing an 11% increase over the 2016 balance
2018	\$6,550,595	representing a 5.2% increase over the 2017 balance
2019	\$6,596,427	representing a 0.7% increase over the 2018 balance

Plant In Service Activity, 2015 - 2019

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Ending Balance</u>
2015	\$ 5,034,709	\$ 252,650	\$ (22,866)	\$ (5,911)	\$ -	\$ 5,258,582
2016	\$ 5,258,582	\$ 497,585	\$ (93,879)	\$ (53,586)	\$ -	\$ 5,608,702
2017	\$ 5,608,702	\$ 760,493	\$(143,853)	\$ -	\$ -	\$ 6,225,342
2018	\$ 6,225,342	\$ 526,211	\$(200,957)	\$ (1)	\$ -	\$ 6,550,595
2019	\$ 6,550,595	\$ 161,342	\$(114,627)	\$ (48)	\$ (835)	\$ 6,596,427

	Beginning 1/1/2019	Additions	Retirements	2019 Activity Adjustments	Transfers	Ending 12/31/2019
<b>Intangible Plant 1.</b>						
301 - Organization	\$ 24,064					\$ 24,064
302 - Franchises	\$ 3,630					\$ 3,630
Total Intangible Plant	\$ 27,694					\$ 27,694
<b>Source of Supply &amp; Pumping Plant 2.</b>	\$ -					\$ -
303 - Land and Land Rights	\$ 423,291			\$ 2		\$ 423,293
304 - Structures and Improvements	\$ 890,070	\$ 11,983		\$ (5)		\$ 902,048
305 - Collecting and Impounding Reservoirs	\$ -					\$ -
306 - Lakes, Rivers and Other Intakes	\$ -					\$ -
307 - Wells and Springs	\$ 722,207			\$ (3)		\$ 722,204
308 - Infiltration Galleries and Tunnels	\$ -					\$ -
309 - Supply Mains						\$ -
310 - Power Generating Equipment	\$ 29,617					\$ 29,617
311 - Pumping Equipment	\$ 405,352	\$ 32,437	\$ 31,088	\$ (2)	\$ (835)	\$ 405,864
339- Other Plant and Miscellaneous	\$ 64,078	\$ 3,621	\$ 1,447	\$ (1)		\$ 66,251
339- Other Plant and Miscellaneous-(Common)						
Total Supply and Pumping Plant	\$ 2,534,615	\$ 48,041	\$ 32,535	\$ (9)	\$ (835)	\$ 2,549,277
<b>Water Treatment Plant 3.</b>	\$ -					\$ -
320 - Water Treatment Equipment	\$ 5,197	\$ 843				\$ 6,040
339- Other Plant and Miscellaneous	\$ 65,475					\$ 65,475
Total Water Treatment Plant	\$ 70,672	\$ 843	\$ -	\$ -		\$ 71,515

## Attachment E

	Beginning	2019 Activity			Ending	
	1/1/2019	Additions	Retirements	Adjustments	Transfers	12/31/2019
<b>Transmission and Distribution Plant 4.</b>	\$ -					\$ -
303 - Land and Land Rights	\$ -					\$ -
304 - Structures and Improvements	\$ -	\$ -	\$ -			\$ -
330- Distribution Reservoirs and Standpipes	\$ 513,971					\$ 513,971
331 - Transportation and Distribution Mains	\$ 2,093,837	\$ -	\$ -	\$ 3		\$2,093,840
333 - Services	\$ 307,270	\$ -	\$ -	\$ (1)		\$ 307,269
334 - Meter and Meter Installations	\$ 266,470	\$ 16,292	\$ 26,150	\$ (45)		\$ 256,567
335 - Hydrants	\$ 12,065	\$ -	\$ -			\$ 12,065
339 - Other Plant and Miscellaneous Equipment	\$ 39,468	\$ 2,424				\$ 41,892
339 - Other Misc. Equipment (Common)						
<b>Total Transmission and Distribution Plant</b>	\$ 3,233,081	\$ 18,716	\$ 26,150	\$ (43)		\$3,225,604
<b>General Plant 5.</b>	\$ -					\$ -
303 Land and Land Rights	\$ 19,960					\$ 19,960
304 - Structures and Improvements	\$ 114,876	\$ 4,775	\$ -			\$ 119,651
340 - Office Furniture and Equipment	\$ 10,056	\$ -	\$ -			\$ 10,056
341 - Transportation Equipment	\$ 369,287	\$ 80,822	\$ 50,446	\$ (1)		\$ 399,662
342 Stores Equipment	\$ -					\$ -
343 - Tools, Shop and Garage Equipment	\$ 99,581	\$ 5,210	\$ -	\$ 3		\$ 104,794
344 - Laboratory Equipment	\$ 2,330					\$ 2,330
345-Power Operated Equipment	\$ -		\$ -			\$ -
346 - Communication Equipment	\$ 500	\$ -		\$ (1)		\$ 499
347 - Computer Equipment	\$ 67,946	\$ 2,935	\$ 5,496	\$ (1)		\$ 65,384
348 - Miscellaneous Equipment	\$ (3)			\$ 4		\$ 1
<b>Total General Plant</b>	\$ 684,533	\$ 93,742	\$ 55,942	\$ 4	\$ -	\$ 722,337
<b>Total Plant in Service 101</b>	<u>\$ 6,550,595</u>	<u>\$ 161,342</u>	<u>\$ 114,627</u>	<u>\$ (48)</u>	<u>\$ (835)</u>	<u>\$ 6,596,427</u>

The total plant in service was verified to the following general ledger accounts:

<b>General Ledger Balances</b>	<b>Ending 12/31/2019</b>
<b>Intangible Plant 1.</b>	
301 - Organization	\$ 24,064
302 - Franchises	\$ 3,630
<b>Total Intangible Plant</b>	<u>\$ 27,694</u>
<b>Source of Supply &amp; Pumping Plant 2.</b>	
303.02 - Land and Land Rights	\$ 423,293
304 .02- Structures and Improvements	\$ 902,048
307 - Wells and Springs	\$ 722,204
310 - Power Generating Equipment	\$ 29,617
311 - Pumping Equipment	\$ 405,864
339.02- Other Plant and Miscellaneous	\$ 66,251
<b>Total Supply and Pumping Plant</b>	<u>\$ 2,549,277</u>

<b>General Ledger Balances</b>	Ending 12/31/2019
<b>Water Treatment Plant 3.</b>	
320 - Water Treatment Equipment	\$ 6,040
339.03- Other Plant and Miscellaneous	\$ 65,475
Total Water Treatment Plant	<u>\$ 71,515</u>

<b>Transmission and Distribution Plant 4.</b>	
330- Distribution Reservoirs and Standpipes	\$ 513,971
331 - Transportation and Distribution Mains	\$2,093,840
333 - Services	\$ 307,269
334 - Meter and Meter Installations	\$ 256,567
335 - Hydrants	\$ 12,065
339.04 - Other Plant and Miscellaneous Equipment	\$ 41,892
Total Transmission and Distribution Plant	<u>\$3,225,604</u>

<b>General Ledger Balances</b>	Ending 12/31/2019
<b>General Plant 5.</b>	
303.05 Land and Land Rights	\$ 19,960
304 - Structures and Improvements	\$ 119,651
340 - Office Furniture and Equipment	\$ 10,056
341 - Transportation Equipment	\$ 399,662
343 - Tools, Shop and Garage Equipment	\$ 104,794
344 - Laboratory Equipment	\$ 2,330
346 - Communication Equipment	\$ 499
347.05 - Computer Equipment	\$ 65,384
Total General Plant	<u>\$ 722,337</u>
<b>Total Plant in Service 101</b>	<b><u>\$6,596,427</u></b>

105-Construction Work in Process	\$ 220,279
<b>Total 101-106 Utility Plant in Service</b>	<b><u>\$6,816,706</u></b>

### **Lakes Region Water Company Prior Period Audit Reports**

There were four Audit Reports issued for Lakes Region since the DW 15-209 rate case. The First Step Adjustment Audit Report was issued on November 1, 2016. The Audit Report indicated there was \$232,369 in in asset additions unitized to plant in service. The Audit Report inclusive of the issues indicated \$229,195 in asset additions unitized to plant in service for recovery. There were two audit issues. The first audit issue related to incorrect depreciation rates on the Indian Mound CPR

## Attachment E

records for the following accounts #304 structures account, #320 Water Treatment Equipment, and #330 Distribution Reservoirs and Stand Pipes. The second audit issue relates to the Logics Software where an account should be setup to book account #320 Water Treatment Equipment rather than account #339 Miscellaneous Treatment Equipment for \$7,284.

### Overall Summary of the Step 1 Plant Additions

JPL-2, JPL-3		
<u>Asset Additions</u>	<u>Book Cost</u>	<u>Audited</u>
#304 Structures and Improvements	\$172,551	\$169,472
#311 Pumping Equipment	\$ 13,615	\$ 13,615
#320 Water Treatment Equipment	\$ 7,284	\$ 7,284
#330 Dist. Reservoirs and Standpipes	\$ 1,801	\$ 1,801
#339 Miscellaneous Equipment	<u>\$ 3,556</u>	<u>\$ 3,556</u>
<b>Total Indian Mound Step Adjustment #1</b>	<b>\$198,807</b>	<b>\$195,728</b>
<b>Logics Accounting Software</b>	<b><u>\$ 33,562</u></b>	<b><u>\$ 33,467</u></b>
<b>Total Step Adjustment #1</b>	<b>\$232,369</b>	<b>\$229,195</b>

The DW 15-209 Second Step Adjustment Audit Report was issued on February 13, 2018. The Audit Report did not identify any issues and indicates the total plant additions were \$404,569.

### Overall Summary of the Step 2 Plant Additions

JPL-3, Sched 2		
<u>Asset Additions</u>	<u>Book Cost</u>	<u>Audited</u>
#331 Transmission and Dist. Main	\$128,710	\$128,710
#333 Services	<u>108,036</u>	<u>108,036</u>
Total <b>Paradise Drive</b> Step Adjustment #2	\$236,746	\$236,746
JPL-3, Schedule 2		
<u>Asset Additions</u>	<u>Book Cost</u>	<u>Audited</u>
#331 Transmission and Dist. Main	\$114,256	\$114,256
#333 Services	<u>53,567</u>	<u>53,567</u>
Total <b>Captain Lovewell Ln.</b> Step Adj. #2	\$167,823	\$167,823
Step 2 Plant Adjustments combined total	\$404,569	\$404,569

### Sale of Dockham Shores Estates

On November 10, 2016 the Commission Order 25,964 approved the sale of the Dockham Shores Estates Water Company to Lakes Region Water Company by borrowing up \$135,000 that was also to be used to fund system and infrastructure improvements in a step adjustment. Refer to the Long-term Debt portion of this report. The Order transferred all the assets to the Lakes Region Water Company system and terminated the Dockham Shores Estates franchise. The Dockham Shores Estates

## Attachment E

water system was required to maintain a separate tariff page with the same billing rates. The Dockham Shores Estates Water System adopted the general terms and conditions of the Lakes Region Water System. In the current rate case, the Company is seeking consolidated billing rates for Dockham Shores Estates.

#### Dockham Shores Estates Audit Reports

The DW 16-619 Dockham Shores Estates Step Adjustment Final Audit Report was issued on January 30, 2019. The Audit Report indicates the Company unitized \$307,599 in assets to plant in service. The report indicates a prior May 2016 filing only authorized \$60,000 in plant additions for the Dockham Shores water system for recovery.

The DW 19-177 Revised Final Audit Report was issued on April 7, 2020 for the Dockham Shores rate case which the Company had purchased in the DW 16-619 docket. The Audit Report based on the 2018 test year indicated there was \$347,958 in assets unitized to plant for the Dockham Shores Estates division 18. The Audit Report identified four issues related to prepaid expenses. Audit verified the \$347,958 plant assets to the GL and CPR records.

#### Summary of Dockham Shores Plant assets as of December 31, 2019

<u>Account #</u>	<u>Description</u>	<u>Amount</u>
303.02	Land and Land Rights	\$1,515
304.05	Structures and Equipment	\$160,880
307	Wells	\$12,433
310	Power Generator	\$29,617
311	Well Pumps	\$35,565
330	Tank	\$29,975
331	T and D Mains	\$49,387
333	Services	\$3,854
334	Meters	\$7,179
335	Hydrants	\$875
339	Misc. Equipment	<u>\$16,678</u>
Total		\$347,957

#### Summary of Wildwood Water System Sale

On June 15, 2018 Commission Order 26,144 approved the sale of assets and franchise to Lakes Region Water Company for \$25,000. The Order transferred all the assets to the Lakes Region Water Company system and terminated the Wildwood Water franchise. The Wildwood Water System was required to maintain a separate tariff page with the same billing rates. The Wildwood Water System adopted the general terms and conditions of the Lakes Region Water System. In the current rate case the Company is seeking consolidated billing rates for Wildwood Water. Audit verified the charges to the general ledger and CPR records. LRWC did not transfer the Organization or Franchise assets from Wildwood Water Company. There was no plant activity in 2019 related to Wildwood Water. The following Wildwood Water Company plant assets were transferred to the books of Lakes Region Water Company in 2018.

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<u>Account #</u>	<u>Description</u>	<u>Amount</u>
304	Structures and Improvements	\$54,984
311	Pumping Equipment	\$7,639
320	Water Treatment Equipment	\$5,197
331	T and D Mains	\$16,914
333	Services	<u>\$3,576</u>
Total		\$88,310

**Mt. Roberts Property in Rate Base**

The Commission Order 25,969 issued on November 28, 2016 approved the DW 15-209 settlement agreement for permanent rates. The Commission Order authorized the \$262,095 Mt. Roberts land to be included in rate base. Audit verified the \$262,095 was booked to the 303 Land account and included as an addition to plant in service on July 1, 2016.

**Summary of Computer Systems**

The Company uses QuickBooks for the general ledger and payroll. The Company uses Fixed Asset Pro for the plant accounting assets such as calculating depreciation expense. The Company pays a monthly expense for the QuickBooks and Fixed Asset Pro software so the software is not a capitalized assets. Refer to the *Operations and Maintenance* portion of this report, account 923.02, for the expense details. The Company uses the Logics Utility Billing Software for billing and tracking customer bills. The Company stopped using the Logics Accounting Module for the general ledger and the Payroll Module because the Logics Accounting/Payroll Modules were designed for fund accounting for a municipal utility or another governmental entity, rather than a regulated public utility.

As of December 31, 2019 the Continuing Property Records reflect \$35,490 in plant assets to account 347 Computer Equipment related to the Logics Software. The DW 15-209 LRWC First Step Adjustment Final Audit Report issued November 1, 2016 indicated the Logics assets were unitized to plant in service for \$33,562. The Company unitized an additional \$1,928 in plant assets related to the Logics Software in February 2016. The current Utility Financial Manager indicated the additional \$1,928 unitized assets were made under a prior Company Manager no longer affiliated with the Company.

**Per December 31, 2019 CPR records**

<u>Account #</u>	<u>Date</u>	<u>Amount</u>
347	December 15, 2015	\$33,562
	February 24, 2016	<u>\$1,928</u>
Total		\$35,490

The Company's Utility Financial Manager indicated that since the Company no longer uses the Accounting and Payroll Module functions, a partial \$5,870 retirement entry should have been done in

## Attachment E

September 2018 but was not. The Company provided the contract showing the cancellation of the \$1,584 payroll/HR portion from September 2018. The Accounting and Payroll Module amounts that should be retired are summarized below. When the adjusting entry is done the Company should debit the Accumulated Depreciation account 108 for \$5,870 and credit the 347 Computer Equipment account for the same amount. **Audit Issue #1**

Date	Amount	Description
9/15/2015	\$ 1,584	Payroll/HR
10/7/2015	\$ 615	Financial Management
9/2/2015	\$ 679	Financial Management
9/2/2015	\$ 489	Financial Management
9/2/2015	\$ 1,348	Financial Management
9/22/2015	\$ 1,156	Financial Management
	\$ 4,286	
Total	\$ 5,870	

The Company is presently working on implementing a new asset management program called Utility Cloud, anticipated to be implemented towards the end of summer 2021. The program allows more tools for workers in the field such as entering work orders, customer work order service history, location of assets, digital image of water systems, and digital records of assets. The Utility Cloud program will allow the Company to not rely as much on paper records in the office and be able to make better analytical/management decisions in the future.

### **Continuing Property Records (CPR)**

The Fixed Asset Pro system is an all-encompassing software program which demonstrates asset, depreciation years and rate, the system and division number, descriptions and locations of assets, the acquisition date, town, replacement value, cost of removal, net book value, general ledger account number for the plant, depreciation expense and accumulated depreciation.

The Company uses the QuickBooks Pro Online System accounting that is separate from the Fixed Asset Pro System used to calculate the depreciation expense and accumulated depreciation amount. The Company makes manual adjustments in the QuickBooks accounting general ledger accounts to record the depreciation expense and accumulated depreciation balance.

Because the Fixed Asset Pro system does not allow the retirement of an asset at the original book value, a manual adjustment to the Fixed Asset Pro System has been proposed to ensure the QuickBooks plant and accumulated depreciation figures, on both systems agree. The adjustment was not done during the test year, but should be in place for 2021 and beyond. **Audit Issue #2 and Audit Issue #3**



### **Bid Process**

The Company indicated that it does not have a formal bidding process. The Company has an affiliate agreement with LRW Water Services Inc. that was signed on February 15, 2010 and amended on October 31, 2013. LRW Water Services Inc. is an affiliate Company that charges directly.

### **E-22s and Construction Budgets**

The Company did not file any E-22 Proposed Expenditures for Capital additions or Construction Budgets for 2015-2018. The Puc Rule 609.12 requires the Company file an E-22 or Construction budget for all projects greater than \$30,000, based on their \$6,816,706 in plant assets. The Company indicated the reason for not filing the E-22s with the Commission was due to the work being done internally with a contractual agreement with LRW Water Services Inc. **Audit Issue #4**

The Company filed an E-22 for 2019. These were for projects for 2019 and 2020. The first project was the Wentworth Cove Pump station upgrades on Rolling Lane in Laconia, estimated to cost \$45,000. The second project was the Paradise Shores main replacement project in Moultonborough, estimated to cost \$96,000. The third project was the Paradise Shores-Robin Ln water main/service line replacements in Moultonborough. The project was estimated to cost \$66,000. The last project was a new Wildwood Pump Station replacement that was budgeted to cost \$260,000.

The Company indicated they do not perform any analysis regarding budgeted vs. actual project costs since the work is done internally by sister Company LRW Water Services Inc. The Company indicated the last detailed review of costs in the affiliate agreement was when the last affiliate agreement was amended in October 2013.

### **Leases**

The Company indicated there were not any capital leases with regard to fixed assets.

### **Cost Allocations**

The Company charges costs directly from an affiliate agreement with LRW Water Services Inc. most recently revised and signed on October 31, 2013. There are no specific overheads as they are included in the directly charged hourly rates. The Company charges \$50 per hour and \$75 per hour for overtime. The hourly rates include the vehicle, employee hourly pay rate, payroll taxes, employee benefits, fuel vehicle costs, truck maintenance, insurance, and depreciation. The Company has a separate fee schedule for equipment rental and a \$50 per month charge for office personal for tasks such as answering phone messages/receiving faxes.

### **Property Held for Future Use**

The Company did not have any charges associated with the 103 Property Held for Future Use account.

**Materials**

The Company purchases assets at cost and is not authorized a markup. The Company indicated the most recent physical inventory was done on December 31, 2020. See the Plant Additions section below, and the Current Assets section of this report for further details.

**Plant Additions**

Audit reviewed individual asset additions for 2015-2019. All additions were verified to the Fixed Asset Pro system as well as to the general ledger accounts indicated. More emphasis was placed on asset additions from 2017-2019. The Company used a different GL and Fixed Asset System for 2015-2016 that did not have a consolidated view for each water system division. Audit then chose specific additions and the related contributions (CIAC) by general ledger account within certain systems to review, as shown below:

<b>Description</b>	<b>Year</b>	<b>Amount</b>	<b>Total by Account</b>
Structures and Improvements	2017	\$ 47,979	\$ 47,979
Pumps and Equipment	2019	\$ 12,701	\$ 12,701
Miscellaneous Equipment	2017	\$ 3,300	
	2018	\$ 4,483	
	2019	\$ 3,622	\$ 11,405
Tanks	2017	\$ 2,559	
	2018	\$ 1,950	\$ 4,509
Transportation Equipment	2016	\$ 56,462	
	2017	\$ 66,882	
	2018	\$ 111,790	
	2019	\$ 80,822	\$ 315,956
Shop Equipment	2017	\$ 4,045	
	2018	\$ 4,599	
	2019	\$ 5,210	\$ 13,854
Computer Equipment	2018	\$ 8,632	
	2019	\$ 2,935	\$ 11,567
Total All Years			\$417,971

**304 Structures and Improvements**

Audit reviewed a \$47,979 Pump Station addition from 2017 that was installed at the Waterville Valley Gateway in Thornton.

<u>Account</u>	<u>Description</u>	<u>Year</u>	<u>Amount</u>
304	Structures and Improvements	2017	\$ 47,979

The Company in November 2017 unitized a new pump house for the Waterville Valley Gateway in Thornton, division 04-WVG, for \$47,979 to the 304 Structures and Improvements account.

Goodrum Enterprises	\$13,200
Handyman Hardware	\$324
Needham Electrical Supply	\$36
Belletetes	\$161
East Coast Foundation	\$4,074
FW Webb	\$12,566
Grainger	\$1,082
Mark Johnson Construction	\$1,923
W. Caleb Johnson Builder	<u>\$14,623</u>
Total	\$47,979

Based on a review of the \$47,979 in vendor invoices, a detailed review is summarized below.

Goodrum Enterprises- The Company spent \$13,200 on Goodrum Enterprises for electrical work for the new pump house, install electrical work for a new pump fan, new light sockets, removal of old panel, run cable, run conduit cable to feeder panel, install two service outlets, rewire the motor starter, and VFD wells.

Handyman Hardware- The Company spent \$324 at the Handyman Hardware store for insulation and electrical plugs.

Needham Electrical Supply- The Company spent \$36 for spray paint and sealant.

Belletetes Building Products- The Company spent \$161 on lumber for the new pump station.

East Coast Foundation- The Company spent \$4,074 on concrete foundation work before the new pump house could be built.

FW Webb- The Company spent \$12,566 on various valves, PVC pipes, plumbing parts, and other parts needed to build the pump house.

Grainger- The Company spent \$1,082 on a Damper and Exhaust Fan for the new pump house.

Mark Johnson Construction- The Company spent \$1,923 on sand and loam from Mark Johnson Construction.

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**W. Caleb Johnson Builders-** The Company spent \$14,623 on W. Caleb Johnson Builder that was the lead contractor to build the 12'x14' pump house, 2x6 walls with zip wall sheathing, rafted roof, Cambridge Architectural shingles, vinyl siding, install vent, alarm, exterior light, insulation, painting, install exterior light, install blocks for meter base, install the wall covers, cleanup, and haul away of old materials.

The Company, on the journal entry provided, unitized the project to plant in November 2017 by debiting the 304 Structures and Improvements account for \$47,979 and crediting the 105 CWIP account for the same amount.

### **311 Pumps**

Audit reviewed three sample additions for \$12,701 in account 311 pumps that were unitized to plant in service during 2019.

<b>Account</b>	<b>Description</b>	<b>Year</b>	<b>Amount</b>
311	Pumps and Equipment	2019	\$ 12,701

The Company in February 2019 purchased a 3HP Booster Pump from Water Industries for \$1,704. The Company on the journal entry debited the 311 Pumps account for \$1,704 and credited the 151 Materials and Supplies Inventory account for the same amount.

The Company in January 2019 spent \$4,854 on three Franklin Series pumps from Premier Pump and Supply and a pump replacement service call from Premier Pumps and Supply Inc. and electrical work. The three Franklin pumps were purchased from Premier Pumps and Supply including service call was \$4,388. The Company spent \$466 in electrical work installing the pumps from Sabourn Electric. The Company debited the 311 Pumps account for \$4,854 and credited the 105 CWIP account for the same amount.

The Company in June 2019 purchased three Franklin Series Stand Alone pumps and line reactors from Premier Pump and Supply Inc. The journal entries provided by the Company debited the 311 Pumps account for \$6,144 and credited the 105 CWIP account for the same amount.

### **330 Tanks**

Audit reviewed two additions that were booked to the 330 Tanks account.

<b>Account</b>	<b>Description</b>	<b>Year</b>	<b>Amount</b>
330	Tanks	2017	\$ 2,559
		2018	\$ 1,950
		Total	\$ 4,509

### **2017**

The Company in July 2017 purchased a 20,000 gallon steel tank for \$2,559 for the Waterville Valley Gateway division in the Company. The access cover was purchased from Mass Tank Sales for

## Attachment E

\$1,296. The Company had to hire Sean Byrnes Welding LLC for \$1,263 to weld the access ports cover for the gateway in Thornton and cut a hole in the hatch plate. The Company booked the journal entries in October 2017 by debiting the 330 Tanks account for \$2,559 and crediting the 105 CWIP account for the same amount.

2018

The Company purchased an access turret from Mass Tank Sales for \$1,950 in September 2018. The Company debited the 330 Tanks account for \$1,950 and credited the 231 Accounts Payable account for the same amount. The tank is for division 06-WC.

**339 Miscellaneous Equipment**

Audit reviewed four telemetry additions for \$11,404 in account 339 Miscellaneous Equipment that were unitized to plant in service during 2017- 2019.

<b>Account</b>	<b>Description</b>	<b>Year</b>	<b>Amount</b>
339	Miscellaneous Equipment	2017	\$ 3,300
		2018	\$ 4,483
		2019	\$ 3,622
		Total	\$ 11,404

2017

Audit reviewed two telemetry additions booked during 2017. The first was a \$1,425 GS300 Remote Telemetry Unit purchased from R.E. Prescott in March 2017. There was also a small amount for labor to install the unit on the tank. On the journal entry the Company debited the 339 Miscellaneous Equipment account for \$1,425 and credited the Accounts Payable account for the same amount.

The second telemetry unit was a \$1,475 GS300 Remote Telemetry Unit purchased from R.E. Prescott in March 2017. There was also a small amount for labor to install the unit on the tank. On the journal entry the Company debited the 339 Miscellaneous Equipment account for \$1,475 and credited the Accounts Payable account for the same amount.

2018

Audit reviewed a telemetry unit that was purchased for \$4,483 from R.E. Prescott in August 2018. The invoice indicated the Company purchased a GS400 Remote Unit with power supply, radio meter, and transmitters. There were also labor charges to install the unit on the water tank. On the journal entries from August 2018 the Company debited the 339 Miscellaneous Equipment account for \$4,483 and credited the Accounts Payable account for the same amount.

2019

Audit reviewed a telemetry unit that was purchased for \$3,622 from R.E. Prescott in March 2019. The invoice indicated the Company purchased a GS400 Remote Unit with power supply and

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data plan there were also labor charges to install the unit on the water tank. On the journal entries from August 2018 the Company debited the 339 Miscellaneous Equipment account for \$3,622 and credited the Accounts Payable account for the same amount.

### **341 Transportation**

Audit reviewed the entire \$315,956 in plant additions booked to plant in service from 2016-2019 related to transportation equipment account # 341. They are part of the 50 administrative division that applies to all 19 divisions.

<u>Account</u>	<u>Description</u>	<u>Year</u>	<u>Amount</u>
341	Transportation Equipment	2016	\$ 56,462
		2017	\$ 66,882
		2018	\$ 111,790
		2019	\$ 80,822
		Total	\$ 315,956

#### 2016

During 2016 the Company booked \$56,462 in additions related to transportation. The Company purchased a 2016 Ford F-150 for \$54,222 and a 2017 aluminum pump trailer puller base for \$2,230

2017 Pump Trailer Base	\$2,230
2016 Ford F-150	<u>\$54,232</u>
Total	\$56,462

The Central New Hampshire Trailers indicated the pump puller base was purchased in September 2016 for \$2,230. The Company provided the journal entry from September 2016 that indicated the Company debited the Transportation account 341 for \$2,230 and credited the Accounts Payable account 231 for the same amount.

The CPR records for the purchase of the 2016 Ford F-150 indicate the truck was purchased from Irwin Ford in Laconia. The Company financed the vehicle for \$41,633 and got \$12,599 trade in value for a 2011 Ford F-150. The Company provided the journal entry detail showing the \$54,232 purchase and trade in for the vehicle. The Company recorded the purchase of the vehicle by debiting the 341 Transportation account for \$41,633 and credited the Accounts Payable 231 for the same amount. The Company in December 2016 booked the trade in value for the 2011 Ford F-150 by debiting the 108 Accumulated Depreciation account and crediting the transportation account for the same \$12,599. The Company booked the retirement of the 2011 Ford F-150 by debiting Accumulated Depreciation account #108 for \$34,068 and crediting the 341 transportation account for the same amount.

#### 2017

During 2017 the Company spent \$66,882 in additions on a 2017 Ford F-550, plow, and stainless steel body. The Company purchased the Ford F-550 from Meredith Ford inclusive of the plow and body. The purchase contract indicates the Company traded in a 2011 Ford F-350 dump truck for

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\$15,000 and financed \$51,882. The journal entries provided by the Company indicate the Company debited the Transportation account # 341 for \$15,000 and credited the 108 Accumulated Depreciation account for the same amount. The Company to record the purchase of the vehicle debited the 341 transportation account for \$51,882 and credited the 224.07 Other Long Term Debt for the same amount.

2018

During 2018 the Company booked \$111,790 in additions related to transportation. The Company was sold a \$12,000 2015 F-350 from Tom Mason from LRW Water Services, and two 2018 Ford F-250s for \$49,895 each.

2015 Ford F-350	\$12,000
2018 Ford F-250	\$49,895
2018 Ford F-250	<u>\$49,895</u>
Total	\$111,790

The CPR from December 2018 and bill of sale indicates Tom Mason of LRW Water Services sold the Company a 2015 Ford F-350 for \$12,000. The Company indicated the engine in the vehicle was non operable after the 2019 test year and the asset is no longer being used and useful. Based on a review of the KBB Website a private party sale in fair condition was estimated to be \$21,000-25,000. Based on the documentation reviewed, the Company got a fair deal at the time the truck was purchased. The Company on the journal entry debit the 341 transportation account and 231 accounts payable account for the same amount in December 2018.

The Company purchased two 2018 Ford F-250s for \$49,895 each. Both trucks were bought from Meredith Ford. The first truck the CPR records were from January 2018. The sales invoice indicates the Company paid \$47,916 for the vehicle that includes a \$1,500 rebate. The Company traded in a 2013 Ford F-250 for \$6,500. The Company also paid \$1,979 for Truck Trends of Belmont for rain guards, and installation of Luverne Grip step running boards, Caps, and Step Brackets.

The Company provided the journal entry for the first truck. The Company recorded the trade in value by debiting the 341 Transportation account for \$2,465, 224.03 Other Long Term Debt for \$4,035 and crediting the 108 Accumulated Depreciation account for \$6,500. The Company to record the purchase of the vehicle/amount financed debited the Transportation account 341 for \$45,451 and credited the 224.08 Other Long Term Debt account for the same amount.

The second truck the CPR records indicate was bought in February 2018. The sales invoice indicates the Company paid \$47,916 for the vehicle that includes a \$1,500 rebate. The Company traded in a 2013 Ford F-250 for \$13,500. The Company also paid \$1,979 for Truck Trends of Belmont for rain guards, and installation of Luverne Grip step running boards, Caps, and Step Brackets.

The Company provided the journal entry for the second truck. The Company recorded the trade in value by debiting the 341 Transportation account for \$8,581, 224.03 Other Long Term Debt for \$4,919 and crediting the 108 Accumulated Depreciation account for \$13,500. The Company to record the purchase of the vehicle/amount financed debited the Transportation account 341 for \$39,335 and credited the 224.08 Other Long Term Debt account for the same amount.

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2019

During 2019 the Company booked \$80,822 in additions related to transportation. The Company purchased a 16 foot Tilt Deck Trailer for \$18,575, a Cat Hammer for \$10,000, and a Duramag Aluminum Body Liner for a truck for \$9,278, and purchased a new 2019 Ford F-150 for \$42,469.

2019 16 Ft. Tilt Deck Trailer	\$18,575
2019 Cat Hammer	\$10,500
2019 Body Liner	\$9,278
2019 Ford F-150	<u>\$42,469</u>
Total	\$80,822

The CPR from May 2019 indicates the Company paid \$18,575 for a Felling Tilt Deck Trailer from Lucky's Trailer Sales Inc. The invoice from February 2019 required the Company to put down a \$1,000 deposit. The journal entry for the deposit indicates the Company debited the 341 Transportation account for \$1,000 and credited the 131.04 Bank NH debit card account for the same amount. In May 2019 when the Company received the trailer they debited the Transportation 341 account for \$17,575 and credited the Accounts Payable 231 account for the same amount.

The CPR from May 2019 indicates the Company paid \$10,500 for a Milton Caterpillar Hammer H55ES that was financed through Caterpillar at zero percent to be paid within one year. On the journal entry the Company debited the 341 Transportation account for \$10,500 and credited the 232.04 Short Term Notes Payable account for the same amount.

The CPR from April 2019 indicates the Company paid \$9,278 for an F3 Dura Mag Aluminum Body Trailer with a bed liner. The invoice indicates the Company bought the trailer from Candia Trailers and Snow Equipment Company for \$8,378. The invoice also indicates the Company spent money to install front grille and rear LED lights and switch. The Company paid Truck Trends \$900 for a bed liner. The journal entry provided by the Company debited the 341 Transportation account for \$9,278 and credited the 231 Accounts Payable account for the same amount.

The Company in November 2019 purchased a 2019 Ford F-150 from Plymouth Ford for \$42,468 per the CPR. The November 2019 invoice from Plymouth Ford indicates the vehicle was financed for \$36,969. This was based on a \$44,969 sticker price that also included a \$2,500 rebate and a \$6,000 deposit for a 2014 Ford F-150 that was sold to Plymouth Ford. The journal entries to record the \$6,000 deposit the Company debited the 341 Transportation account for \$6,000 and credited the 131.01 BNH Operating Account for the same amount. The Company booked the \$36,469 vehicle finance charges by debiting 341 Transportation account for \$36,949 and crediting the 224.10 Other Long Term Debt for the same amount.

Audit reviewed the CPRs for trailers that were relatively old and the Company indicated they are no longer being used and are no longer useful and should be retired. The following trailer assets should be removed from the plant in service filing schedules. **Audit Issue #5**

1987 Utility Trailer	\$630
2004 Excavator Trailer	\$3,425
2005 Covered Utility Trailer	<u>\$1,999</u>
Total	\$6,054



**343 Shop Equipment**

Audit reviewed \$13,854 in plant additions booked to plant in service from 2017-2019 related to transportation equipment account # 343. They are part of the 50 administrative division that applies to all 19 divisions.

<u>Account</u>	<u>Description</u>	<u>Year</u>	<u>Amount</u>
343	Shop Equipment	2017	\$ 4,045
		2018	\$ 4,599
		2019	\$ 5,210
		Total	\$ 13,854

2017

The August 2017 CPR indicates the Company spent \$4,045 on a Compactor. The Compactor was purchased from Reliable Equipment LLC. The Company provided a December 31, 2017 journal entry that debited the 343 General Plant: Shop Equipment account for \$4,045 and credited the 930.08 Miscellaneous General Expense account for the same amount.

2018

The February 2018 CPR indicates the Company spent \$4,599 on a Boss Sander from MB Tractor and Equipment per the invoice. The February 2018 journal entry the Company debited the 343 Shop Equipment account for \$4,599 and credited the 231 Accounts Payable account for the same amount.

2019

The Company during 2019 purchased a welder, Honda generator, and a Pipe Threader Kit.

2019 Welder	\$2,658
2019 Generator	\$950
2019 Pipe Thrdr Kit	<u>\$1,602</u>
Total	\$5,210

The Company in February 2019 spent \$2,658 on a Viking Welder purchased from Maine Oxy per the invoice. The Company on the journal entry from February 2019 debited the 343 Shop Equipment account for \$2,658 and credited the 131.01 BNH Operating account for the same amount.

The Company in December 2019 spent \$950 on a Honda Generator from Profile Power Sports. The Company on the journal entry from December 2019 debited the 343 Shop Equipment account for \$950 and credited the 131.01 BNH Operating Account for the same amount.

The 2019 CPR indicates the Company spent \$1,602 on a pipe threader kit from FW Webb in October 2019. The Company on the journal entry from October 2019 debited the 343 Shop Equipment account for \$2,658 and credited the 231 Accounts Payable account for the same amount.

**347 Computer Equipment**

Audit reviewed \$11,567 in plant additions unitized to plant in service during 2018 and 2019.

<u>Account</u>	<u>Description</u>	<u>Year</u>	<u>Amount</u>
347	Computer Equipment	2018	\$ 8,632
		2019	\$ 2,935
		Total	<u>\$ 11,567</u>

**2018**

The Company during January 2018 purchased a Sensus Meter Reading Gun for \$8,632 from Team EJP in Concord, NH. The Company on the journal entry debited the 347.05 Computer Equipment account for \$8,632 and credited the 231 Accounts Payable account for the same amount.

**2019**

Lenovo Laptop	\$1,599
4 iPads	\$1,836
VW Discount	<u>(\$500)</u>
Total	\$2,935

During 2019 the Company purchased a new 2019 Lenovo Laptop and purchased four new Apple iPad with discounted Verizon Wireless Equipment Bill Incentive Credit for \$125 for each iPad or \$500 for all four.

The Company in September 2019 purchased a new Lenovo Laptop for \$1,599 from Lakes Region Computer LLC. The Company debited the 347.05 Computer Equipment account for \$1,599 and credited the 231 Accounts Payable account for the same amount.

The Company retired an old 2013 Lenovo Laptop that was for \$1,780. The Company booked the retirement entries by debiting the 108 Accumulated Depreciation account for \$1,780 and crediting the 347.05 Computer Equipment account for the same amount.

The Company in November 2019 purchased four new iPad from Lakes Region Computer for \$459 each or \$1,836. The Company received a \$125 discount for each iPad from Verizon Wireless for Equipment Bill incentive credits. The total discount was \$500 for all four iPads.

The Company retired four 2014 iPads that were for \$929 each or \$3,716 total. The Company on the November 2019 journal entry debited the 108 Accumulated Depreciation account for \$3,716 and credited the 347.05 Computer Equipment account for the same amount.

## **Retirements**

### **Test-year Retirements**

Assets in the amount of \$114,627 were reported retired during the test year. Audit reviewed each and noted that the plant account in which the asset had been reflected was properly credited with the full original cost and offset to accumulated depreciation.

<u>Account</u>	<u>Description</u>	<u>Amount</u>
311	Pumping Equipment	\$31,088
334	Meters and Meter Installations	\$26,150
339	Other Plant and Misc.	\$1,447
341	Transportation Equipment	\$50,446
347	Miscellaneous Equipment	<u>\$5,496</u>
Total 2019 Retirements		\$114,627

LRWC retired pumping equipment during 2019, booking a credit to Pumping Equipment, account 311, and a debit to Accumulated Depreciation, account 108.

Meter retirements for 2019 totaled \$26,150 and were booked monthly during 2019 with different amounts charged each month. This amount agrees with the 2019 NHPUC annual report and the general ledger. The total 2019 asset retirements shown on the Company's Disposal Report in the amount of \$26,150 agrees with the general ledger. The Company debited the 108 Accumulated Depreciation Account and credited the 334 meters account for the same amount.

The Company retired a 2017 GS300 Telemetry Equipment on February 22, 2019. The Company debited the 108 Accumulated Depreciation Account and credited the 339 Miscellaneous Equipment account for the same amount.

The Company retired a 1997 Toyota vehicle and a 2014 Ford F-150 Pickup Truck with tools. The Toyota vehicle was retired for \$15,643 on December 31, 2019. The 2014 Ford F-150 was retired on November 26, 2019 for \$34,803. The total retirements for both vehicles is \$50,446. The Company debited the 108 Accumulated Depreciation Account and credited the 341 transportation account for the same amount.

The Company retired a 2013 Lenovo Laptop on September 25, 2019 for \$1,780. The Company retired four 2014 Apple iPads for \$929 each or \$3,716. All the Computer retirements during 2019 summed to \$5,496. The Company debited the 108 Accumulated Depreciation Account and credited the 347 Computer Equipment account for the same amount.

### **Cost of Removal**

The Company on the 2019 annual report F-11 indicates \$6,000 in cost of removal charges. The Company indicated the removal charges related to a \$6,000 deposit paid to Plymouth Ford for a 2019 Ford F-150. When the Company purchased the 2019 Ford F-150 they retired a 2014 F-150 Ford truck

that was used as a trade. The journal entry from November 26, 2019 the Company debited the 341 Transportation account and credited the 131.01 Bank of NH Cash account both for \$6,000.

### **Utility Plant Acquisition Adjustments**

114	(\$276,689)
115	<u>\$204,365</u>
Total	(\$72,234)

Audit verified the net (\$72,234) in Utility Plant Acquisition Adjustments booked to accounts 114 and 115 on filing schedule 2 and the 2019 annual report. There was no activity during the test year in the 114 Utility Plant Acquisition Adjustment account that had a (\$276,689) test year ending balance.

The 115 Accumulated Amortization Acquisition account had a \$197,148 beginning balance with monthly debit entries for \$602 that summed to a net \$7,218 in account activity during the 2019 test year. Audit verified the offsetting credit entries to account 406. The 115 account had a test year ending balance of \$204,365.

The expense account 406, Amortization of Utility Plant Acquisition Adjustment, was split between LRWC, Wildwood, and Dockham Shores Estates. The 406 GL account is a combined account, but through the identification of all entries to specific divisions, Audit was able to verify the following:

<u>LRWC</u>	<u>WW</u>	<u>DS</u>	<u>Total</u>
(\$5,708)	(\$6)	(\$1,504)	(\$7,218)

For additional information, refer to the Amortization portion of this report.

### **Accumulated Depreciation**

Accumulated Depreciation, account #108 for the test year December 31, 2019, as reported in the 2019 annual report, was \$2,152,270 for plant in service balance of \$6,596,798. Depreciation Expense was \$200,869, Cost of Removal was \$6,000, the Book Cost of plant retired was \$114,627, and other debit items for \$44 related to rounding adjustments. Audit verified these amounts to the Company's general ledger for the 2019 test year, and the filing schedule 2.

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Beginning Balance 2015	\$ 1,582,018
Depreciation Expense	\$ 178,347
Book Cost of Plant Retired	\$ (22,866)
Rounding	\$ 3
Audit Issue Adjustment	\$ (2,545)
Beginning Balance 2016	\$ 1,734,957
Depreciation Expense	\$ 168,851
Book Cost of Plant Retired	\$ (93,881)
Other (debit)/credit items	\$ 12,598
Beginning Balance 2017	\$ 1,822,525
Depreciation Expense	\$ 185,807
Book Cost of Plant Retired	\$ (44,279)
Beginning Balance 2018	\$ 1,964,053
Depreciation Expense	\$ 227,791
Book Cost of Plant Retired	\$ (200,957)
Cost of Removal	\$ (12,500)
Salvage (Credit)	\$ 20,000
Wildwood	\$ 61,534
Other (debit)/credit items	\$ 151
Ending 2018 Balance Per F-11	\$ 2,060,072
Beginning Balance 2019	\$ 2,060,072
Depreciation Expense	\$ 200,869
Book Cost of Plant Retired	\$ (114,627)
Cost of Removal	\$ 6,000
Other (debit)/credit items	\$ (44)
Ending Balance 2019	\$ 2,152,270

The Company provided a 2019 Accumulated Depreciation Fixed Asset Pro Financial Book Report with retirements that indicated the December 31, 2019 was \$\$2,575,531. This is a \$423,261 difference compared to the \$2,152,270 amount booked to the GL, filing, and annual report. The reason for the variance is because the Fixed Asset Pro system does not allow the retirement of an asset at the original book value, a manual adjustment to the Fixed Asset Pro System has been proposed to ensure the QuickBooks plant and accumulated depreciation figures, on both systems agree. The adjustment was not done during the test year but the Company indicates they are working to make the adjustments sometime in 2021. **Audit Issue #2**

### Depreciation and Amortization Expenses

#### Depreciation

The chart below shows the 403 account breakout of the Depreciation Expense between LRWC, Wildwood Water, and Dockham Shores Estates as seen on Filing Schedule 1 that was verified to the GL.

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<u>LRWC</u>	<u>WW</u>	<u>DS</u>	<u>Total</u>
\$179,692	\$4,303	\$16,875	\$200,869

The current December 31, 2019 Depreciation Expense in the amount of \$200,869 shown on schedule 1 of the filing agreed with the general ledger, account #403 - Depreciation Expense and the NHPUC 2019 annual report schedule F-2, Statement of Income. Audit reviewed the December 31, 2019 \$216,736 Depreciation Expense Report from the Fixed Asset Pro system. This is a \$15,867 difference that the Company indicated is due to a \$44 deferred debit plant rounding adjustment and a \$15,911 adjustment made in 2019 to fix the incorrect 2018 depreciation expense rates that were not applied correctly. Other reasons for the variance is because the Fixed Asset Pro system does not allow the retirement of an asset at the original book value and a manual adjustment must be made. Audit reviewed the 2018 depreciation adjusting entry that debited the 108 Accumulated Depreciation account for \$15,911 and credited the 403 Depreciation Expense for the same amount.

Audit traced several accounts from the Depreciation Expense Report for the \$200,869 test-year to the NHPUC annual report schedule F-12 – Annual Depreciation Charge. The Company did not use the correct half year convention for the 2019 assets additions and retirements booked to plant in service. The Company is not able to quantify the amount affected by the 2019 test year but indicated the depreciation expense has been understated in past years. The Company indicated they will make the correction using the half year convention in 2021. Audit Staff reviewed the Fixed Asset Pro System on a site visit and the Company Utility Finance Manager indicated a correct half year is coded ADSSL in the system and a full year for depreciation is coded SL. The Company did calculate the half year convention for Dockham Shores Estates in 2018. **Audit Issue #3**

### **Amortization**

Audit verified the (\$7,218) Amortization of Utility Plant Acquisition Adjustments test year ending balance booked to the 406 GL account on the filing schedule 1 and F-49 on the 2019 annual report. Audit verified the monthly \$602 credit entries. Since the most recent rate case DW 15-209 the Company has since purchased the Dockham Shores and Wildwood Water Systems. The Commission Order 25,964, issued on November 16, 2016, authorized the purchase of the Dockham Shores Water System. Refer to the Utility Plant Acquisition Adjustment section of this report for additional information.

The most recent Dockham Shores rate case was DW 19-177. The Commission Order 26,144 on June 15, 2018 authorized the purchase of the Wildwood Water System. On the F-49 of the 2019 annual report the Company did not put the name of the Wildwood Water system or the 6.7% rate over which the system assets are being amortized. Audit verified the calculations were correctly performed by the Company. The F-49 should reflect:

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<u>Description</u>	<u>Cost Basis</u>	<u>Rate</u>	<u>Amount</u>
WC/PC	(\$36,693)	2.0%	( \$723)
WG	(\$65,232)	2.0%	(\$1,305)
ELW	(\$56,866)	2.0%	(\$1,137)
DR	\$1,786	2.0%	\$36
TWW	(\$38,156)	2.0%	(\$763)
HV	(\$172)	5.0%	(\$9)
175	(\$1,427)	5.0%	(\$71)
Deer Cove	\$85	5.0%	\$4
Lake Ossipee Village	(\$39,492)	2.0%/5.0%	(\$847)
Indian Mound	\$3,913	5.0%	\$196
Gunstock Glen	(\$21,771)	5.0%	(\$1,089)
Dockham Shores	(\$22,571)	6.7%	(\$1,504)
Wildwood Water	<u>(\$93)</u>	<b>6.7%</b>	<u>(\$6)</u>
Total	(\$276,689)		(\$7,218)

**Construction Work in Process (CWIP)**

The CWIP balance, reported on the 2019 NHPUC annual report, schedule F-10 was \$220,979 and was verified to the Company's general ledger, account #105 and the filing schedule 2. The estimated additional cost to complete the projects was reported as \$873,100.

Far Echo Harbor: New Source	\$6,379
Paradise Shores Well #5	\$32,832
Main Repl. Robin Ln.	\$37,265
New Main Woodstream Dr.	\$1,129
Pump Control Panel and Station Up.	\$55,183
New Dry Well	\$3,389
175 Estates adding treatment	\$7,453
Lake Ossipee Village treatment	\$18,851
Main Repl on Richard Rd.	\$3,820
Wildwood Pumping Station Rep.	<u>\$52,196</u>
Total CWIP	\$220,279

Audit reviewed a transaction for LRW Water Services for a deposit on the Paradise Shore main replacement that was for \$33,265. Audit reviewed an invoice for Sabourn Electric for electrical work for \$11,232. The electrical work consisted of labor, materials, installation of cable feeders, and installation of underground mount with pedestal mounted meter. Audit reviewed an invoice for George R. Roberts Co. and The Step Guys for a 15,000 gallon tank that was for \$22,290. The invoice also consisted of installation and transportation of the tank.

105 CWIP		
Month	Vendor	Amount
5/29/2019	Sabourn Electric, Inc	\$ 11,232
7/1/2019	LRW Water Services, Inc	\$ 33,265
9/30/2019	George R. Roberts Co. & The Step Guys	\$ 22,290
Total		\$ 66,787

### Contributions in Aid of Construction (CIAC)

CIAC – 2017	\$896,878
CIAC – 2018	\$899,678
Test Year – 2019	\$899,678

The CIAC balance, reported on the 2019 NHPUC annual report, schedule F-46 was 899,678 and was verified to the Company's general ledger, account #271 and the filing schedule 2 the balance sheet as well as filing schedule 3 plant rate base. There were no additions to CIAC in the test year.

Year	Description	Beg. Bal.	Activity	Ending Bal.
2017	Dockham Shores Assets	\$870,878	\$5,200	\$876,078
2017	Installation of 468" of main	\$876,078	\$12,480	\$888,558
2017	Installation of 7 new services	\$888,558	\$8,320	\$896,878
2018	Wildwood Water Assets	\$896,878	\$2,800	\$899,678
2019	No Additions	\$899,678	None	\$899,678

There was an \$870,878 beginning balance at the start of 2017. The activity during 2017 consisted of the purchase of the Dockham Shores Water System assets, installation of 468" of new water mains, and installation of seven new service line connections. There was an \$896,878 beginning balance to start 2018. During 2018 there was a \$2,800 entry to record the Wildwood Water System Acquisition. The December 31, 2018 year ending balance was \$899,678

### Accumulated Amortization of CIAC/Amortization of CIAC Expense

Asset	Cost Basis	Rate	Amount
330 Storage Tank	\$210,000	2.22%	\$4,667
331 Trans. And Dist. Mains	\$638,636	2.0%	\$11,601
333 Services	\$37,973	2.5%	\$913
334 Meters and Meter Inst.	\$3,495	5%	\$175
335 Hydrants	\$8,974	2.00%	\$179
Total	\$9,239,980		\$17,535



## Attachment E

The Amortization of Contribution in Aid of Construction was broken out between LRWC, Wildwood, and Dockham Shores Estates. The 405 GL account is a combined account to which Audit was able to verify each water system broken out below:

<u>LRWC</u>	<u>WW</u>	<u>DS</u>	<u>Total</u>
(\$17,391)	(\$28)	(\$116)	(\$17,535)

The related Accumulated Amortization of CIAC, account #272 totaled \$340,427 on the Company's general ledger. This amount agree with the Amortization of CIAC on filing schedule 2, and the 2019 NHPUC annual report for the test year 2019. The account activity on the GL consisted of monthly debit entry amounts of \$1,461 to record the monthly Accumulated Amortization of CIAC amount. Amortization of CIAC expense, account 405 for the test-year totaled \$(17,535) on the Company's general ledger. This amount agreed with schedule 1 of the filing and the 2019 NHPUC annual report. Audit verified that the depreciation rates and the amortization rates were the same from the Fixed Asset Pro information page.

**AFUDC**

The Company did not have any AFUDC charges during the 2019 test year. The Company has not incurred any AFUDC charges in the past, as they do not finance projects using internal funds.

**BALANCE SHEET ASSETS****Total LRWC Cash and Bank Reconciliation**

The Company provided the bank reconciliations for each account which Audit verified to the 12/31/2019 NHPUC annual report, the filing schedule 2, page 1 of 2, and the following general ledger accounts without exception:

<u>Accounts</u>	<u>Description</u>	<u>Amount</u>
131.01	Cash - Operating Account - BNH	\$ 62,431
131.04	Cash - Debit Card	\$ 1,816
Total Cash		\$ 64,247

The general ledger shows the Bank of New Hampshire checking account, 131.01 with a year-end balance of \$62,431.

The Bank of New Hampshire operating account 131.01 is used as the general operating account which showed a year-end balance of \$62,431 on the general ledger. This amount agreed with the bank reconciliation as of December 31, 2019. The bank reconciliation provided by the Company showed a higher balance of \$67,061, a difference of \$4,630. The Company provided a transaction report with a December 30<sup>th</sup> balance of \$38,602 and subsequent deposits on December 30<sup>th</sup> and 31<sup>st</sup> of \$23,829 which results in the operating account tying to the general ledger amount of \$62,431 at year-end.

## Attachment E

The general ledger account 131.04 – Bank of New Hampshire checking account showed a December 31, 2019 balance of \$1,816. The bank reconciliation provided by the Company showed a higher balance of \$1,893, a difference of \$77. The variance was shown to be uncleared transactions as of December 31, 2019.

### **Accounts Receivable**

Audit verified the reported Accounts Receivable balance of \$195,796 on the filing Schedule 2, Page 1 of 2, and the 2019 NHPUC annual report Schedule 19 – Notes and Accounts Receivable to the following general ledger accounts:

Account	Description	Amount
141.00	Accounts Receivable	\$ 163,944
145.00	Accounts Receivable (LRWC)	\$ 31,851
Total Accounts Receivable		\$ 195,796

Audit reviewed the accounts receivable aging report for the test-year December 31, 2019. This report was used by Audit to sample customer's bills in the Tariff section of this report. The 2019 PUC annual report shows that the accounts receivable balance increased approximately 1% from 2018.

Current -	\$ 357,081
30 Days -	\$(206,197)
60 Days -	\$ (325)
90 Days -	\$ 13,385

Audit inquired about the lack of an accrued revenue account and the Company explained that the accounts receivable account, 141 is their accrued revenues. The Company provided the record of billing cycles showing the month and day each system is billed at each of the six cycles. The Company staggers the billings so that cash comes in each month of the year. As an example, Paradise Shore customers are billed in March, June, September and December (cycle 1) while Waterville Valley Gateway customers are billed February, May, August, November (cycle 3) and Hidden Valley customers are billed January, April, July and October (cycle 2).

See Account 904 Uncollectible in the Operations and Maintenance section of this report and the Revenue portion of this report for additional details.

### **Inventory – Materials and Supplies**

For the test year ending December 31, 2019, Schedule F-22 of the PUC annual report, shows a balance of \$24,752, an increase from the 2018 balance of \$6,711. The 2019 amount agrees with the filing, Schedule 2, submitted by the Company.

Accounts	Description	Amount
151	Materials & Supplies Inventory	\$ 24,274
151.01	Meters	\$ 27,386
151.01a	Meters (Placed in Service)	\$ (26,908)
Total Materials and Supplies Inventory		\$ 24,752

### Prepayments

For the test year ending 12/31/2019, Schedule F-23 of the PUC annual report, shows a Prepayments balance of \$15,512 consisting of:

Prepaid Insurance	\$7,518 verified to account 162.01
Prepaid One-Call	\$ 936 verified to account 162.02
Prepaid Water Monitoring Equipment	\$ 840 verified to account 162.03
Prepaid Operating Permits	\$2,850
Prepaid Plowing	\$ 900
Prepaid Computer Support	<u>\$2,468</u>
	<u>\$6,218</u> verified to account 162
Total Account 162 as of 12/31/2019	<b>\$15,512</b>

The overall account 162 Prepayments-Other, changed by only \$94 when compared to the 2018 prepaid balance. The activity represented prepayments for snowplowing at Hidden Valley upper and Lower pump stations \$1,125 that was expensed to account 930.02; \$2,468.18 for AMR support provided by EJ Prescott, expensed to account 930.12; and NH DES Permits to Operate \$300 \* 19 systems, \$5,700 which were expensed to account 930.06. Refer to the Operations and Maintenance section of this report for additional details.

Account 162.01 Prepayments-Other: Insurance, decreased by \$3,699 since the 2018 year-end. The Company has insurance policies that cover the period May 15 through May 15. Cover sheets and details for the various types of policies were requested and reviewed within the Operations and Maintenance portion of this report, specifically account 924. Audit verified the year-end prepaid figure of \$7,518 to worksheets compiled by the Company.

Account 162.02 Prepayments-Other: One-Call, decreased by \$395 compared to the 2018 balance. The service is an automated outgoing messaging service that calls customers to notify them of system issues. The \$936 represents unused credits with One-Call. See the expense account 905.01 Misc. Customer Acct Expense for additional details.

Account 162.03 Prepayments-Other: Monitoring Systems, dropped from a 2018 prepaid balance of \$10,410. The \$10,410 represents the 2019 annual monitoring subscription Lakes Region has with Generating Solutions. The 2019 calendar year invoice was dated 12/11/2018. Expenses that write-down the prepayment post to account 662.08. Audit verified the 2019 expense and prepaid balances to:

## Attachment E

Expense total 662.08	\$ 12,090.00
162.03 activity	<u>\$ (9,570.00)</u>
difference	\$ 2,520.00
\$840 * 3 debited in 162.03	\$ 2,520.00
= \$10,410 - \$12,090	\$ (1,680.00)
= \$840 * 2 included as debits in 662.08	<u>\$ 1,680.00</u>
balance in 162.03	\$ 840.00

The three \$840 entries, or \$2,520, represent upgrades to telemetry equipment and the associated pro-rated monitoring, with \$1,680 expensed in the test year. Because the subscription is based on a calendar year, Audit requested clarification of the \$840 prepaid amount. The Company indicated that telemetry equipment was purchased in July 2019 for division 07, but was not put into service. Rather, the equipment was booked to inventory account 151, but the subscription had been paid. The bill from Generating Solutions, for calendar 2020, excluded system 07, because it had been paid in advance but not used. Expensing of the monitoring system prepayment begins only when the telemetry equipment is put into service.

### **Prepaid Property Taxes**

The PUC annual report and filing Schedule 2 reflect a prepaid tax total of \$19,971. The total was verified to the general ledger accounts 163.01 and 163.02.

163.01 Prepaid State Utility Taxes	\$6,928
163.02 Prepaid Local Taxes	<u>\$12,243</u>
Total	\$19,971

Audit reviewed the \$6,928 prepaid state utility taxes paid to the New Hampshire Department of Revenue Administration. This was calculated by dividing the \$27,711 2019 State Utility Property Tax bill. The prepayment of \$6,928 is the 4<sup>th</sup> payment due in quarter 1 of 2020 for the 2019 tax year.

Audit reviewed the 2019 second issuance municipal property tax bills that were for \$24,582. Exactly one half of this is \$12,291. This is a \$48 difference than the \$12,243 that was booked to account 163.02. The reason for the \$48 immaterial difference is due to timing.

### **Miscellaneous Deferred Debits**

The 2019 NHPUC annual report, schedule F-28, reflects a beginning balance for the total Company of \$164,415, with reductions to three of the accounts totaling to \$41,963. Debits to the accounts totaled \$52,680. The ending balance of \$175,132 was verified to the total Company's general ledger accounts shown below and the filing schedule 2, page 1 of 2.

## Attachment E

Account	Description	Beg. Balance	Debits	Credits	End Balance
186.03	2012 Investigation DW 07-105	\$ 29,907	\$ -	\$ 9,980	\$ 19,927
186.06	2015 DW 15-209 Rate Case Expense	\$ 26,339	\$ -	\$ 26,339	\$ -
186.07	Acquisition of Sysytems Expense	\$ 52,901	\$ 3,283	\$ 5,644	\$ 50,540
186.08	DW 15-209 Step 2	\$ 2,145	\$ -	\$ -	\$ 2,145
186.09	IR 19-005 ROE Petition	\$ 36,542	\$ 14,293	\$ -	\$ 50,835
186.10	West Point Dry Well	\$ 16,581	\$ -	\$ -	\$ 16,581
186.11	DW 18-056 Tax Act	\$ -	\$ 18,526	\$ -	\$ 18,526
186.12	DW 19-177 DS Rate Case	\$ -	\$ 10,934	\$ -	\$ 10,934
186.13	DW 16-619 DS Step Adjustment	\$ -	\$ 5,644	\$ -	\$ 5,644
Total Miscellaneous Deferred Debits		\$ 164,415	\$ 52,680	\$ 41,963	\$ 175,132

Audit reviewed the activity related to account 186-03, the 2012 investigation in docket DW 07-105. Twelve monthly credits in the amount of \$831.66 were posted to account 186.03 for a total of \$9,980 and were offset with debits to account 928 – Regulatory Commission Expense. These costs were incurred in the investigation into the use of the Tamworth well in 2005.

Account 186-06, Rate Case Expenses in docket DW 15-209 showed a beginning balance of \$29,339 and a credit for the same amount to bring the balance to zero. The credits for the account 186.06 were offset with debits to account 928 – Regulatory Commission Expense.

The System Acquisition Expense, Account 186-07 showed a beginning balance of \$52,901, a debit for \$3,283 and a credit for \$5,644 resulting in the ending balance of \$50,540. The credit in the amount of \$5,644 was to reclass Dockham Shores organizational costs to account 186.13. See the Amortization section of this report for further discussion.

Account 186-08, Step 2, DW 15-209 expenses showed a beginning balance of \$2,145 with no activity for the test-year.

Account 186-09, the Return on Equity petition in docket DW 18-005 showed a beginning balance of \$36,542 with a debit in the amount of \$14,293 resulting in the test-year ending balance of \$50,835. The general ledger shows the entries to be legal costs from Upton & Hatfield, LLP, accounting costs from Stephen P. St. Cyr and a charge from Scott Madden, Inc.

The West Point Dry Well Expenses, Account 186-10 showed a beginning balance of \$16,581 with no activity for the test-year. The filing proposes to amortize these costs over 20 years.

The Tax Act Expense, account 186.11 in docket DW 18-056 posted a debit of \$10,934 and no amortization entries in the test-year. The general ledger shows the entries to be legal costs from Upton & Hatfield, LLP, accounting costs from Stephen P. St. Cyr and Leone, McDonnell & Roberts and entries from Blue Ridge Consulting. These costs are not yet being amortized in the test-year.

Account 186.12, Dockham Shores Rate Case Expenses in docket DW 19-177 posted a debit of \$10,934 with no amortization entries in the test-year. The general ledger shows the entries to be legal costs from Upton & Hatfield, LLP and accounting costs from Stephen P. St. Cyr.

## Attachment E

The Dockham Shores Step Adjustment, account 186.13 in docket DW 16-619 posted a debit of \$5,644 which was a reclassification from account 186.13. There were no credits to the account in the test-year. The filing proposes to amortize these costs over 5 years.

### LIABILITIES AND EQUITY

The 2019 balance sheet liabilities and equity, noted on Schedule F-1 of the annual report, totaled \$(5,121,822). Audit verified the total liabilities and equity to the general ledger, as well as to Schedule 4 (pdf page 27 of 107 of the "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules.pdf") of the filing:

Equity Capital	\$ (2,971,220)
Long-term Debt	(915,541)
Current and Accrued Liabilities	(96,879)
Deferred Credits	(578,931)
Contributions in Aid of Construction	<u>(559,251)</u>
Total Equity Capital and Liabilities	\$ (5,121,822)

#### Equity Capital \$(2,971,220)

Audit verified that the total equity capital consisted of the following general ledger account balances:

Common Stock Issued	\$ (10,000)
Other Paid-in Capital	(1,423,322)
Capital Stock Expense	(4)
Retained Earnings	<u>(1,537,894)</u>
Total Equity Capital	\$ (2,971,220)
<u>Common Stock \$(10,000)</u>	

Schedule 4 of the filing reports the Common Stock total of \$(10,000), as of December 31, 2019. This total agrees with the PUC annual report, as well as with the general ledger account 201, Common Stock. The Company's sole shareholder is the director, Barbara G. Mason. There was no activity reported on the account during the 2019 test year. Audit noted that the Common Stock total of \$(10,000) has remained constant since the prior rate case in 2014.

#### Other Paid-in Capital \$(1,423,322)

The 2019 total of \$1,423,322 was reported on page 17 of the annual report and verified to the general ledger account 211, Other Paid-in Capital, as well as to Schedule 4 of the filing. The general ledger reported only one 12/10/19 entry in the amount of \$3,000 to Barbara Mason. The memo for the entry stated that it was "loan payment #1." Audit questioned the purpose of the transaction and the Company stated that, "It was requested by the President to make a 'Payment [from] Capital' to Barbara Mason (Shareholder)...The memo for the entry is incorrect." Audit requested the Board of Directors minutes approving the \$3,000 payment. The Company explained that the amount was not approved through a Board of Directors meeting. **Audit Issue #6**

## Attachment E

The February 2021 board of directors meeting minutes voted that beginning on June 19, 2020, payments given to Barbara Mason would increase from the current dividend of \$2,500 per month to \$5,300 per month, resulting in a monthly \$2,800 increase. It was also voted that the money issued to the owner be treated as a return of paid-in capital from the Contributed Capital account, rather than treated as a dividend from the Retained Earnings account. The Company further explained that the first payment made to Barbara Mason was for \$3,000 (discussed above) and that the subsequent payments were for \$2,500 plus the additional \$2,800 per month. Audit understands that reflecting payments to owners from the Contributed Capital account should be done only at the time of liquidation of the Company. Audit also understands that the issuance of dividends results in a 1099 tax form, while the funding out of the contributed capital does not. **Audit Issue #6**

Refer to the Retained Earnings section of this report for further details regarding the dividend payments.

Capital Stock Expense \$(4)

The balance on Account 213, Capital Stock Expense of \$(4) was noted on page 17 of the annual report, as well as on Schedule 4 of the filing. Audit reviewed the general ledger, noting that there was no activity on the account for the 2019 test year. The account was used for recording the amortized amount of the Equity Financing Costs Expenditures of \$18,405. These costs represent the remaining half of costs related to expenses incurred during PUC Docket DW 08-070 that were financed by an equity infusion from Thomas A. Mason and Barbara G. Mason (DW 08-070, Order #24,954). The balance in Capital Stock Expense account is being amortized over a ten year period (beginning in 2009), with the offsetting entry to Account 426, Amortization Expense – Capital Stock. In 2009, the Company reclassified \$18,405 from account 928, Regulatory Expense, to account 213, Capital Stock Expense.

Schedule F-34 of the annual report depicts the 10 year amortization of the equity financing costs, ending in 2018. The total amount booked to amortization expense for 2018 totaled \$1,841. The \$4 balance on the account is deemed immaterial and has remained since 2018 when the final amortization of costs was recorded.

Retained Earnings \$(1,537,894)

The total Retained Earnings of \$(1,537,894) was noted in the filing on schedule 4, as well as page 17 of the annual report. The following represents the general ledger activity for the Company's Retained Earnings, as verified to Schedule F-3, Statement of Retained Earnings, within the annual report:

215	Retained Earnings Opening Balance	\$(1,528,307)
438	Dividends Declared – Preferred Stock	30,000
439	Adjustments to Retained Earnings	180,463
	Net Income per Income Statement F2 of Annual Report	<u>(220,050)</u>
	Adjusted Retained Earnings at Year End F3 Annual Report	\$(1,537,894)

The general ledger reflected the 2018 and 2019 activity in the Retained Earnings as:

**per the General Ledger:**

Retained Earnings-account <b>217</b>	\$ (789,952.90)	\$ (931,263.48)
Inter-div Profit Distribution-account <b>217.01</b>	\$ (597,043.60)	\$ (597,043.60)
subtotal	\$ (1,386,996.50)	\$ (1,528,307.08)
net income	\$ (221,311.00)	\$ (220,050.34)
Dividends Declared-account 438	\$ 80,000.00	\$ 30,000.00
Adjustment-account <b>217.02</b>	\$ -	\$ 180,463.22
	\$ (1,528,307.50)	\$ (1,537,894.20)

Accounts 215 and 217 both relate to Retained Earnings. Account 215 is for class A and B utilities, while account 217 is for class C utilities. Audit acknowledges that the use of account 217 is incorrect for the current Lakes Region Water utility, based on the revenue for Class C utilities of less than \$150,000. The revenue classification for A is \$750,000 or more, and for Class B between \$150,000 and less than \$750,000. For the test year, operating revenue for LRWC was reported to be \$1,563,690.

Audit reviewed the general ledger for Account 438, Dividends Declared – Common Stock. A credit of \$30,000 offset to account 217 was booked 1/1/2019. Dividend payments totaled \$30,000 for the 2019 test year, via disbursements totaling \$2,500 per month. The April 26, 2016 board of directors meeting minutes included the approval of the monthly \$2,500 dividend disbursements, “*to the shareholder Barbara Mason.*” The \$2,500 disbursements were split as twelve monthly debit entries of \$1,250 for dividends paid to Thomas A. Mason 1994 Revocable Trust and twelve monthly debit entries of \$1,250 for dividends paid to Barbara G. Mason 1994 Revocable Trust. Offsetting credit entries for the monthly \$2,500 dividend payments were made to account 231, Accounts Payable, with the payable clearing monthly and the cash account credited. Although the board of directors meeting minutes only specifies Barbara Mason as the recipient of the monthly dividends, Audit understands that the Company is owned in two family trusts, held by Barbara G. Mason, as stated in the filing testimony of Mr. Thomas A. Mason.

Audit confirmed that the annual \$30,000 in dividends was recorded to schedule F-3 of the annual report since 2017. Refer to the Other Paid-in Capital section of this report for notes regarding the dividend payments.

A 1/1/2019 entry for \$50,000 was noted on account 438, Dividends Declared – Common Stock, and offset to account 217, Retained Earnings. The entry was for the 2018 close of the dividend expense account to retained earnings. Audit questioned whether the \$50,000 was authorized as declared payable. The Company explained that the \$50,000, “*was a catch-up entry*” to reconcile the 2016 dividends of \$20,000/year and the 2017 dividends of \$30,000/year, that should have been included in the year-end close-out of account 438, Dividends Declared – Common Stock, to retained earnings.

The \$180,463 debit adjustment to retained earnings was for the activity within account 217.02, EDIT & Tax Savings, as it relates to docket DW 18-056, Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions. Audit reviewed Order 26,340, verifying the authorization of the following 12/31/2019 general ledger entries on the account:



## Attachment E

12/31/2019 Annual Regulatory Liability	\$ 42,707.00
Excess Deferred Income Tax	141,995.00
Amortization of EDIT	<u>(4,238.78)</u>
EDIT & Tax Savings Balance at Year End	\$ 180,463.22

Each figure was verified to an offset in the 282.02 DW 18-056 EDIT Reserve account. Refer to the Taxes section of the report for further details regarding the \$180,463 EDIT and Tax Savings Balance.

**DEBT****Long-Term Debt \$(915,541)**

Audit verified the PUC annual report total of \$(915,541), for the Company's long-term debt, to schedule 4A of the filing. The long-term debt represents the aggregate total of \$(781,852) in Bonds and the aggregate total of \$(133,689) of Other Long-term Debt. The long term debt balance decreased by \$131,785 as compared to 2018. The following general ledger account balances represent the Company's long-term debt obligations:

**Long-term Debt – Bonds**

Account	Description	Balance
221.01	LT Debt – Bonds: CoBank T01	\$ (315,853)
221.01a	LT Debt – Bonds: CoBank S01	-
221.02	LT Debt – Bonds: CoBank T02	-
221.03	LT Debt – Bonds: CoBank T03	(96,249)
221.04	LT Debt – Bonds: CoBank T04	(124,254)
221.05	LT Debt – Bonds: CoBank T05	<u>(245,496)</u>
	Bonds Total a/o 12/31/19	\$ (781,852)

**Other Long-term Debt**

224.04	Other LT Debt: Ford 2014 F150 6505	\$ -
224.05	Other LT Debt: Ford 2016 F150 8576	(11,796)
224.07	Other LT Debt: Ford 2017 F550 0334	(30,765)
224.08	Other LT Debt: Ford 2018 F250 2428	(29,301)
224.09	Other LT Debt: Ford 2018 F250 2159	(25,358)
224.10	Other LT Debt: Ford 2019 F150 4338	<u>(36,469)</u>
	Other LT Debt Total a/o 12/31/19	\$ (133,689)
	Total Long-term Debt	<u><u>\$ (915,541)</u></u>

**221.0x Long-Term Debt – Bonds \$(781,852)**

Audit reviewed the general ledger for the 221 accounts. The aggregate balance in bonds totaled \$(781,852), as of 12/31/19, and is split among six loans with CoBank. The following represents the details regarding each of the CoBank loans:

## Attachment E

221.01 CoBank \$474,567 Loan T01 Docket DW 13-335, Order No. 25,655 dated 4/29/2014, authorized the Company to borrow \$500,000 from CoBank with a maturity date of 6/20/2029. A copy of the loan promissory note, which states the loan terms “*in an amount not to exceed \$500,000,*” as well as the loan amortization schedule was reviewed by Audit. The actual note payable was in the amount of \$474,567 and verified to the loan amortization schedule. The purpose of the loan was for the refinancing “*three existing TD Bank loans previously approved by the Commission.*” The interest was reported at a fixed rate of 5.25% and was verified to the CoBank monthly billing statements. The 2019 interest paid totaled \$17,758, per schedule F-35 of the annual report and Schedule 4A of the filing. Monthly billed interest amounts from CoBank were debited to general ledger account 427, Interest Expense.

Audit reviewed the general ledger for account 221.01, LT Debt-Bonds: CoBank T01. Monthly debit entries for the principal payments were verified to the CoBank billing statements. Audit confirmed the 2019 outstanding balance on the account of \$(315,853) to Schedule 4A of the filing, as well as to Schedule F-35 of the annual report. The principal and interest payments billed from CoBank were verified to the loan amortization schedule. The 2019 principal paid for the loan totaled \$29,881.

221.01a CoBank \$50,000 Line of Credit S01 Docket DW 13-335, Order No. 25,655 dated 4/29/2014, authorized the Company to maintain a revolving line of credit agreement with CoBank for a maximum of \$50,000 with variable interest “*determined by CoBank on a weekly basis.*” A copy of the Amended and Restated Revolving Credit promissory note was reviewed by Audit. The primary purpose of the loan was “*to use the proceeds for interim capital expenditures and working capital.*” As of December 31, 2019, the CoBank monthly billing statement listed the interest at 3.70%.

At year-end 2018, there was \$50,000 outstanding under the line of credit agreement. The 2019 general ledger activity on account 221.01a, CoBank S01 LOC, reported debit transactions totaling \$(50,000) for the line of credit payments. As of December 31, 2019, Audit confirmed an outstanding balance of \$0 on the account and tied the balance to Schedule F-35 of the annual report, as well as Schedule 4A of the filing. The principal balance and monthly interest payments were verified to the CoBank billing statements. The 2019 interest paid totaled \$1,107 with monthly interest payments confirmed to general ledger account 427, Interest Expense.

221.02 CoBank \$318,810 Loan T02 Docket DW 13-335, Order No. 25,655 dated 4/29/2014, authorized the Company borrow \$400,000 from CoBank with a maturity date of June 20, 2019. Audit reviewed a copy of the loan promissory note, which states the loan terms “*in an amount not to exceed \$400,000.*” The actual note payable was in the amount of \$318,810 and verified to the loan amortization schedule. The loan was for payments to reduce the Company’s accounts payable outstanding balance and to pay 2013 federal and state income tax liabilities. The interest on the loan reported a fixed rate of 3.45% and was confirmed to the CoBank monthly billing statements. The 2019 interest paid totaled \$305, per schedule F-35 of the annual report and Schedule 4A of the filing. Monthly billed interest amounts from CoBank were debited to general ledger account 427, Interest Expense.

Audit reviewed the general ledger for account 221.02, LT Debt-Bonds: CoBank T02. Monthly debit entries for the principal payments, recorded during the months of January through May, were verified to the CoBank billing statements. The 2019 principal paid for the loan totaled \$27,923. Audit reviewed the reconciliation report for account 221.02 and verified the final principal payment, totaling \$5,604 to CoBank, on 5/31/2019. The \$0 balance on the account was confirmed, as of 6/28/2019, and

verified to Schedule 4A of the filing, as well as Schedule F-35 of the annual report. The account was labeled “deleted” on the general ledger, as of 12/31/2019.

221.03 CoBank \$130,000 Loan T03 Docket DW 14-285, Order 25,753 dated 1/ 13/2015, authorized a \$130,000 note payable to CoBank, at a fixed rate of 5.50% and with a maturity date of 6/20/2030. Audit reviewed a copy of the loan promissory note. The primary purpose of the loan was to finance improvements to the Company’s Indian Mound system in Ossipee to replace aging and deteriorating infrastructure.

Audit reviewed the general ledger for account 221.03, LT Debt-Bonds: CoBank T03. Twelve monthly debit entries for the principal payments were verified to the CoBank billing statements, as well as to the loan amortization schedule. The 2019 principal paid for the loan totaled \$7,766. Audit confirmed the 2019 outstanding balance on the account of \$(96,249) to Schedule 4A of the filing, as well as to Schedule F-35 of the annual report.

Twelve monthly billed interest amounts from CoBank were debited to general ledger account 427, Interest Expense. The 2019 interest paid for the T03 loan totaled \$5,105, per Schedule 4A of the filing and Schedule F-35 of the annual report. Audit noted that the monthly interest payments were calculated at a variable rate. Audit questioned why the fixed interest rate of 5.5%, authorized in Order 25,753, was not implemented in the calculation of the T03 loan interest payments. The Company stated that, “[The] CoBank T03 Loan is at a variable rate because when the loan was closed, the Company was unaware they needed to inform CoBank it wished to have a fixed rate.” Through review of the monthly bank statements for 2019, Audit verified that the variable rate applied to the loan had never exceeded the 5.5% Commission authorized rate. Audit has noted the risk with a variable rate in that, if the rates increase beyond the authorized 5.5% before the maturity date of the loan, then the Company may have to incur the costs to refinance the loan or renegotiate with CoBank to get a different rate.

221.04 CoBank \$135,000 Loan T04 Docket DW 16-619, Order No. 25,964, dated 11/10/2016, authorized a \$135,000 note payable to CoBank, with a maturity date of 11/20/2037. A copy of the loan promissory note was reviewed by Audit. The purpose of the loan was to finance the acquisition of the utility assets of Dockham Shores Estates Water Company and to make significant improvements to the water system. The interest on the loan reported a fixed rate of 5.45% and was verified to Schedule 4A of the filing, as well as to the CoBank monthly billing statements. The 2019 interest paid totaled \$7,021, per schedule F-35 of the annual report and Schedule 4A of the filing. Twelve monthly billed interest amounts from CoBank were debited to general ledger account 427, Interest Expense.

Audit reviewed the general ledger for account 221.04, LT Debt-Bonds: CoBank T04. Twelve monthly debit entries for the principal payments were verified to the CoBank billing statements. Audit confirmed the 2019 outstanding balance of \$(124,254) to Schedule F-35 of the annual report, as well as Schedule 4A of the filing. The principal and interest payments billed from CoBank were verified to the loan amortization schedule. The 2019 principal paid for the loan totaled \$4,731.

221.05 CoBank \$265,000 Loan T05 Docket DW 16-854, Order No. 25,996, dated 3/3/2017, authorized a \$265,000 note payable to CoBank, with a maturity date of 11/20/2037. A copy of the loan promissory note was reviewed by Audit. The purpose of the loan was “to finance construction projects in the Company’s Paradise Shores and Indian Mound divisions. The Commission amends the order to

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*allow the Company to borrow money at an interest rate not to exceed 6.60.*” Audit verified the interest on the loan to the CoBank monthly billing statements, with a fixed rate of 5.45%. The 2019 interest paid totaled \$13,868, per schedule F-35 of the annual report and Schedule 4A of the filing. Twelve monthly billed interest amounts from CoBank were debited to general ledger account 427, Interest Expense.

Audit reviewed the general ledger for account 221.05, LT Debt-Bonds: CoBank T05. Twelve monthly debit entries for the principal payment transactions were verified to the CoBank billing statements. Audit confirmed the 2019 outstanding balance of \$(245,496) to Schedule F-35 of the annual report, as well as Schedule 4A of the filing. The principal and interest payments billed from CoBank were verified to the loan amortization schedule. The 2019 principal paid on the loan totaled \$9,217.

224.xx Other Long-Term Debt \$ (133,689)

Audit reviewed the general ledger for the 224 accounts. The aggregate balance for the other long-term debt totaled \$(133,689), as of 12/31/19, and is split among five loans with Ford Motor Credit. The following represents the details regarding each of the Ford Motor Credit loans:

224.04 Other LT Debt – Ford 2014-F150 (6505): \$31,771 Docket DW 14-285, Order No. 25,753, dated 1/13/2015, authorized a \$31,771 loan that had been financed in 2014 through Ford Motor Credit Company and with a maturity date of 8/6/2019. A copy of the loan agreement was reviewed by Audit. The purpose of the loan was for the purchase of a Ford F-150 Truck, *“to ensure the Company’s ability to service all of its water systems.”* Audit verified the fixed rate interest of 6.24% to a billing statement from Ford Credit, detailing the full transaction history on the loan. The 2019 interest paid totaled \$114, per the loan amortization schedule, which Audit confirmed to schedule F-35 of the annual report and Schedule 4A of the filing. There were three interest amounts debited to general ledger account 427, Interest Expense, for Q1 through Q3 of 2019. The final interest payment was recorded on 8/6/2019.

Audit reviewed the general ledger for account 224.04, Other LT Debt – Ford 2014-F150 (6505). Eight monthly debit entries for the principal payment transactions were verified to the Ford Credit billing statements. Audit confirmed the 2019 general ledger account balance of \$0 to Schedule F-35 of the annual report, as well as Schedule 4A of the filing. The principal and interest payments billed from Ford Credit were verified to the loan amortization schedule. The 2019 principal paid on the loan totaled \$4,835 with the final payment recorded on 8/6/2019. Audit reviewed a copy of the loan payoff letter from Ford Motor Credit Company and confirmed that account 224.04 was labeled “deleted” on the general ledger, as of 12/31/2019.

224.05 Other LT Debt – Ford 2016 F150 (8576): \$41,633 Docket DW 16-427, Order No. 25,895, dated 5/6/2016, authorized a \$41,730 loan payable to Ford Motor Credit, with a maturity date of 6/30/2021. A copy of the loan promissory note was reviewed by Audit. The purpose of the loan was for the Company’s purchase of a new 2016 Ford F-150 truck for use in its utility business. Audit verified the 0% interest on the loan to the CoBank monthly billing statements.

The general ledger for account 224.05, Other LT Debt – Ford 2016 F150 (8576), was reviewed by Audit. Monthly debit entries, in the amount of \$693.89 for the principal payment transactions, were verified to the Ford Motor Credit billing statement. Audit confirmed the 2019 outstanding balance of

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\$(11,796) outstanding to the Ford Motor Credit billing statement, as well as to Schedule F-35 of the annual report and Schedule 4A of the filing. There was no amortization schedule for the loan due to the 0% interest rate. The 2019 principal paid on the loan totaled \$8,327.

224.07 Other LT Debt – Ford 2017 F550 (0334): \$51,882 Docket DW 17-146, Order No. 26,069, dated 11/3/2017, authorized a \$148,862 loan to be financed through Ford Motor Credit Company, for the purchase of three new vehicles for use in the operation of business. For one of the three vehicles purchased, the Company borrowed \$51,882 of the total loan amount, with a maturity date of 10/16/2022, to finance one Ford F-550 dump truck with plow. The terms of the loan were verified to a copy of the loan agreement, noting an interest rate of 4.34%. There were four quarterly interest amounts debited to general ledger account 427, Interest Expense, for the 2019 interest paid totaling \$1,571. Audit confirmed the interest payment journal entries to the Ford Motor Credit billing statements and loan amortization schedule. The total interest paid was tied to schedule F-35 of the annual report and Schedule 4A of the filing.

Audit reviewed the general ledger for account 224.07, Other LT Debt – Ford 2017 F550 (0334). Twelve monthly debit entries for the principal payment transactions were verified to the Ford Motor Credit Company billing statements and the loan amortization schedule. Audit confirmed the 2019 general ledger account balance of \$(30,765) outstanding to the Ford Motor Credit billing statement, as well as to Schedule F-35 of the annual report and Schedule 4A of the filing. The 2019 principal paid on the loan totaled \$9,990.

224.08 Other LT Debt – Ford 2018 F250 (2428): \$45,451 Refer to account 224.07 Other LT Debt – Ford 2017 F550 (0334) for details regarding the authorization of the loan, via Docket DW 17-146, Order No. 26,069. For one of the three vehicles purchased, the Company borrowed \$45,451 of the total loan amount authorized, with a maturity date of 2/8/2023, to finance a Ford F-250 pick-up truck. The terms of the loan were verified to a copy of the loan agreement, noting an interest rate of 4.84%. There were four quarterly interest amounts debited to general ledger account 427, Interest Expense, as well as a December 2018 interest payment of \$474 posted on 1/1/2019, for the total interest paid of \$2,119. Audit confirmed the 2019 interest payment journal entries to the Ford Motor Credit billing statements and loan amortization schedule. The total interest paid was tied to schedule F-35 of the annual report and Schedule 4A of the filing.

Audit reviewed the general ledger for account 224.08 Other LT Debt – Ford 2018 F250 (2428). Twelve monthly debit entries for the principal payment transactions were verified to the Ford Motor Credit Company billing statements. Audit confirmed the 2019 general ledger account balance of \$(29,301) outstanding to the Ford Motor Credit billing statement, as well as to Schedule F-35 of the annual report and Schedule 4A of the filing. The 2019 principal paid on the loan totaled \$8,133.

224.09 Other LT Debt: Ford 2018 F250 (2159) \$39,335 Refer to account 224.07 Other LT Debt – Ford 2017 F550 (0334) for details regarding the authorization of the loan, via Docket DW 17-146, Order No. 26,069. For one of the three vehicles purchased, the Company borrowed \$39,335 of the total loan amount authorized, with a maturity date of 2/8/2023, to finance a Ford F-250 pick-up truck. The terms of the loan were verified to a copy of the loan agreement, noting an interest rate of 4.84%. There were four quarterly interest amounts debited to general ledger account 427, Interest Expense, for the total 2019 interest paid of \$1,424. Audit confirmed the 2019 interest payment journal entries to the Ford Motor Credit billing statements. The total interest paid was tied to schedule F-35 of the annual report and Schedule 4A of the filing.

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Audit reviewed the general ledger for account 224.09 Other LT Debt: Ford 2018 F250 (2159). Twelve monthly debit entries for the principal payment transactions were verified to the Ford Motor Credit Company billing statements. Audit confirmed the 2019 general ledger account balance of \$(25,358) outstanding to the Ford Motor Credit billing statement, as well as to Schedule F-35 of the annual report and Schedule 4A of the filing. The 2019 principal paid on the loan totaled \$7,449.

224.10 Other LT Debt – Ford 2019 F150 (4338): \$36,469 Docket DW 19-155, Order No. 26,310, dated 11/25/2019, authorized a \$36,469 loan to be financed through Ford Motor Credit Company for a 5-year term with a maturity date of 11/27/2024. The financing was for the purchase of a 2019 Ford F-150 truck to be used in business operations. The terms of the loan were verified to a copy of the loan agreement, noting an interest rate of 1.90%. The loan agreement stated that monthly payments of \$638 would commence on 1/10/2020. Audit reviewed the general ledger for account 224.10 Other LT Debt – Ford 2019 F150 (4338), confirming that there were no interest or principal payments made during the 2019 test year. The only entry on the account was made on 11/27/2019, in the amount of \$(36,469), to record the loan. Audit verified the 2019 general ledger account balance of \$(36,469) outstanding to the Ford Motor Credit billing statement, as well as to Schedule F-35 of the annual report and Schedule 4A of the filing.

### **Current and Accrued Liabilities \$(96,879)**

Audit tied the general ledger balances for the current and accrued liability accounts, to Schedule F-1 of the annual report, as well as to Schedule 2 of the filing. The following represents the total Current and Accrued Liabilities:

231x	Accounts Payable (See <u>Operations and Maint.</u> section)	<b>\$ (61,669)</b>
232.xx	ST Notes Payable	<b>\$ (2,756)</b>
236.01	Accrued Taxes: Payroll Taxes (see <u>Payroll</u> section)	\$ -
236.01a	Accrued Taxes: Payroll 941 PR Taxes (see <u>Payroll</u> section)	-
236.01b	Accrued Taxes: Payroll 940 PR Taxes (see <u>Payroll</u> section)	(421)
236.01c	Accrued Taxes: Payroll Taxes: NHUC (see <u>Payroll</u> section)	(2)
236.02	Accrued Taxes: Federal Income Taxes (See <u>Tax</u> section)	(25,811)
236.03	Accrued Taxes: NHBPT (See <u>Tax</u> section)	817
	236.xx Accrued Taxes Total	<b>\$ (25,418)</b>
241	Accrued Payroll (see <u>Payroll</u> section)	<b>\$ (7,036)</b>
	241 Total Miscellaneous Current & Accrued Liabilities	<b>\$ (7,036)</b>
	Total Current and Accrued Liabilities	<b>\$ (96,879)</b>

Schedule F-1 of the annual report states the Accounts Payable balance of \$(61,669). Audit noted the \$3 variance between the general ledger account balances, for both the total Accounts Payable and the Notes Payable, and the balance reported on lines 18 and 19 respectively, of the annual report. The following represents the 2019 year-end general ledger account balances comprising the aggregate Accounts Payable amount:

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231	Accounts Payable (A/P)	\$ (60,460)
231a	Amex	<u>(1,212)</u>
	231x Accounts Payable Total	<u>\$ (61,672)</u>

The \$(3) variance between the annual report amount of \$(61,669) and the general ledger balance of \$(61,672), is acknowledged and deemed immaterial. Refer to the Operations and Maintenance section of this report for testing of expense accounts, and to the Plant in Service section for any payables that were for capital projects.

232.xx ST Notes Payable \$(2,756)

232.01	Short Term Notes Payable: Health/Dental Payable	\$ 3
232.04	ST Notes Payable: Cat Fin-Mini Hammer (deleted)	<u>(2,756)</u>
	232.xx ST Notes Payable Total	<u>\$ (2,753)</u>

Audit recalculated the general ledger account balances for the aggregate Notes Payable amount, resulting in a total of \$(2,753). The \$3 variance between Audit's calculation and the amount of \$(2,756), as reported on line 19 of the annual report, is acknowledged by the balance on account 232.01, Short Term Notes Payable: Health/Dental Payable. Audit noted that the \$3 Notes Payable variance combined with the \$(3) Accounts Payable variance, did not impact the total Current and Accrued Liabilities total of \$(96,879), as reported in the annual report and Schedule 2 of the filing.

The Company's short term debt for test year 2019 totaled \$(2,756). Audit confirmed the total short-term debt to the filing PUC 1604.01(a)(24), notes payable schedule, which detailed the amount of the Company's outstanding short-term debt, as reported on a monthly basis. The short term debt balance calculated to less than 1% of net fixed plant and was in compliance with PUC 608.05, in that it does not exceed 10% of the utility's net fixed plant of \$4,592,112, as of December 31, 2019. Audit verified the short term debt to page 17 of the annual report, for account 232, Notes Payable, as well as to Schedule 2 of the filing.

Audit reviewed the general ledger for account 232.01, Short Term Notes Payable: Health/Dental Payable. There were twelve monthly credit transactions on the account for both the health and dental premiums. Copies of the Anthem Blue Cross Blue Shield and Delta Dental invoices were provided for the months of June and December, 2019. The corresponding schedule for the health and dental premiums was also provided, detailing the percentage amounts that the employees and the Company are responsible for paying. Audit verified the journal entries to both the invoices and the payment schedule.

Audit reviewed the general ledger for account 232.04, ST Notes Payable: Cat Fin-Mini Hammer (deleted). The account is for recording the transactions made on a Cat Financial Revolving Card with a credit limit is \$12,500.00. The Company explained that, "[Cat Financial] offered a 24 month 0% so we purchased an attachment for our Min Excavator." The account was opened in February 2019. Credits on the account did not exceed one year and were offset to the Cash account. A 2/21/2019 Credit entry totaling \$10,500 was for the initial purchase of a Mini Cat Excavator Hammer attachment, which was charged to the Cat Financial Revolving Card. There were also nine debit transactions on the account, for approximately \$919, which were payments made to Cat Financial towards the \$10,500 purchase. Audit reviewed the beginning Cat Financial billing statement provided by the Company, as

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well as the 2019 billing statements for April, June, and December, confirming the journal entries on the account. Through review of the detailed journal entry report of the account, Audit verified that no Commission approval was needed for the charged amount, as the Cat Financial card was paid in full within 12 months.

**236.xx Accrued Taxes Total \$(25,418)**

Account 236.01x, Accrued Taxes: Accrued Payroll Taxes \$(423) reported monthly entries for the payroll tax accruals, as well as NH unemployment tax. Refer to the Payroll section of this report for further detail on payroll accruals.

Account 236.02, Accrued Taxes: Accrued Federal Income Taxes \$(25,811) and account 236.03, Accrued Taxes: Accrued NHBPT \$817, each reported a 12/31/2019 journal entry to record the federal and state tax, respectively. Refer to the Taxes section of this report for further details on tax accruals.

**241 Total Miscellaneous Current & Accrued Liabilities \$(7,036)**

Audit verified the 2019 Miscellaneous Current and Accrued Liability balance of \$(7,036) to general ledger account 241, Accrued Payroll, as well as to page 17 of the annual report. Refer to the Payroll section of this report for further detail on payroll accruals.

**427 Interest Expense \$50,392**

Schedule F-35 of the annual report, as well as schedule 4A of the filing, listed the interest expense in the amount of \$50,392.

Long-Term Debt	\$ 45,164
Other Long-term Debt	<u>5,228</u>
	\$ 50,392

Audit reviewed the terms of each of the loans. The monthly interest calculations were verified to the bank statements. Audit tied the interest for the Long Term CoBank loans, totaling \$45,164, to account 427:

<u>Long-Term Debt</u>	<u>Reported Interest</u>
CoBank T01 – 15 Year Note	\$ 17,758
CoBank S01 – Line of Credit	1,107
CoBank T02 – 5 Year Note	305
CoBank T03 – 15 Year Note	5,105
CoBank T04 – 20 Year Note	7,021
CoBank T05 – 20 Year Note	<u>13,868</u>
Long-Term Debt Interest Total	\$ 45,164



<u>Other Long-Term Debt</u>	<u>Reported Interest</u>
Ford Motor Credit 6505 – 2014 Ford F150	\$ 114
Ford Motor Credit 8576 – 2016 Ford F150	-
Ford Motor Credit 0334 – 2017 Ford F550	1,571
Ford Motor Credit 2428 – 2018 Ford F250	2,119
Ford Motor Credit 2159 – 2018 Ford F250	1,424
Ford Motor Credit 4338 – 2019 Ford F250	-
Other Long-Term Debt Interest Total	\$ 5,228
Total Interest for the Year 2019	<u>\$ 50,392</u>

Audit reviewed the general ledger for account 427, Interest Expense, noting a balance of \$53,835. The Company explained the \$3,443 variance by stating that, “*Northstar Leasing final payment [\$2,020.92] was interest for the lease of the 2018 generator for Dockham Shores that had a \$1 buyout at the end of the lease...and our General Liability insurance charges interest for installment payments totaling \$1,422.53.*”

Audit verified the Northstar Leasing final payment of \$2,020.92 and the two insurance interest payments, totaling \$1,422.53, to the general ledger activity for account 427. Offsetting entries were made to accounts 232.03 Short Term Notes Payable: North Star Leasing, and account 162.01, Prepayments – Other: Insurance, respectively. Audit noted that one of the insurance interest payments, posted on 1/1/2019 and totaling \$676.60, was described as an insurance adjustment to the interest. The Company explained that the \$676.60 was for the 2018/2019 insurance year and that the entry should have been posted in 2018 “*but was forgotten.*” The interest amount for the lease payment and the two insurance interest payment journal entries were confirmed to copies of the 2019 Northstar Lease Agreement, as well as the 2018 and 2019 AFCO Credit Corporation Agreements for interest. The \$676.60 should be considered a non-recurring expense. See **Audit Issue #7**

The Company provided copies of the CoBank and Ford Motor Credit loan statements, detailing the interest payment and calculation, for each of their debt obligations. Audit verified the monthly interest payments to the journal entries without exception. Refer to the Debt section of this report for details regarding the interest rate and 2019 total interest for the year, per individual debt obligation.

#### **428000 Amortization of Debt Discount and Expense \$1,938**

Audit confirmed the \$1,938 year-end balance for the Amortization of Debt Discount and Expense, account 428, to schedule F-2 of the annual report, as well as to schedule 4B of the filing. There were twelve monthly debit transactions on the general ledger account, each in the amount of \$161.53, totaling \$1,938.36 for the 2019 amortization expense associated with the debt issuance costs. Entries were offset to account 181.xx, Unamortized Debt Discount and Expense.

Audit noted four re-classification entries posted on 12/31/19, in the amount of \$58.15, for the year-end administration expenses allocating the 3% of division 50 to Dockham Shore Estates and Wildwood. Refer to the Operations and Maintenance Expenses section of the report for details regarding administration expenses and allocation.

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181.xx Unamortized Debt Discount and Expense \$23,788

The 2019 Unamortized Debt Discount totaled \$23,788, per schedule F-25 of the annual report and schedule 2 of the filing. This net figure represented the amount of debt issuance costs associated with obtaining the five debts and the accumulated amortization relating to each. Refer to the Interest Expense and Long Term Debt sections of this report for details regarding the notes payable. The following represents the general ledger accounts that comprise the net Unamortized Debt Discount and Expense:

181.01 Unamortized Debt-Def. Debt: CoBank Loan T01 Refinance	\$ 3,840
181.02 Unamortized Debt-Def. Debt: CoBank Loan T03	9,684
181.03 Unamortized Debt-Def. Debt: CoBank Loan T05	3,140
181.04 Unamortized Debt-Def. Debt: Ford Motor Credit	947
181.05 Unamortized Debt-Def. Debt: DW 19-135 CoBank (2019 Projects)	<u>6,177</u>
Total 2019 Unamortized Debt Discount and Expense	\$ 23,788

Audit reviewed the journal entries on the 181 accounts. The 2019 activity on accounts 181.01, 181.02, and 181.04 reflected the monthly amortization of debt costs offset to account 428000, Amortization of Debt Discount, in the total amount of \$1,938. Schedule F-25 of the annual report shows the beginning year balance of \$19,550 for account 181 (listing the T01, T03, T05, and Ford Motor Credit loans) with credits summing to \$1,939 and relating to the T01, T03, and Ford Motor Credit loans only. Audit noted that there are no credit entries on the 181 account for the T02, T04, and T05 loans. The Company explained that they were not instructed to “break out” any debt associated costs for the T02, T04, and T05 loans; rather the debt associated costs were built into the loans’ corresponding dockets DW 13-335, DW 16-619, and DW 16-854, respectively. Refer to the Long Term Debt section of this report for details regarding the terms of the loans. Refer to the Amortization of Debt Discount and Expense, account 428000, section for more information on the monthly amortization of debt cost.

Account 181.05, Unamortized Debt-Def. Debt: DW 19-135 CoBank (2019 Projects), reported activity totaling \$6,177 for 2019. Audit noted that the transactions on the account were related to a loan approved after the 2019 test year. On February 12, 2021, Order #26,457 of docket DW 19-135, authorized “Lakes Region Water Company to borrow \$633,000 from CoBank to purchase assets required to provide water service.” Audit understands that because the DW 19-135 financing was not completed until 2021, the Company was not amortizing those costs during the 2019 test year. The costs were booked among thirteen debit entries on the account, made monthly and relating to the 2019 projects’ financing, to vendors Stephen P. St. Cyr & Associates and Upton and Hatfield, LLP. The Company confirmed that the costs will not be amortized until the loan is closed and they have begun repayment.

REVENUE

Total Company revenues reported on the filing Schedule 1, page 2 of 32 and on the 2019 NHPUC annual report, schedule F-47, was \$1,563,690 which was verified to the following general ledger accounts:

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Account	Description	Amount
460.00	Unmetered Sales	\$ 464,450
461.01	Metered Sales-Base Charge	\$ 655,858
461.02	Metered Sales-Usage Charge	\$ 201,061
461.03	Metered Sales-POASI	\$ 228,515
471.01	Misc. Svc. Rev.-Discon./Recon.	\$ 9,920
471.02	Misc. Svc. Rev.-House Transfers	\$ 4,608
471.03	Misc. Svc. Rev.-Customer Fees	\$ 2,498
471.04	Misc. Svc. Rev.-NSF Customer Chg.	\$ 144
471.05	Misc. Svc. Rev.-Finance Charge	\$ 6,365
474.01	Misc. Svc. Rev.-NSF Customer Chg.	\$ 32,980
474.02	Other Water Rev.-Tax Savings Ref.	\$ (42,707)
Total Revune		\$ 1,563,690

Revenues reported on the filing Schedule 1, page 2 of 25 for Wildwood totaled \$26,039. Total revenues for Dockham Shores reported on filing Schedule 1, page 2 of 21 totaled \$38,808. Stand-alone revenues for LRWC reported on schedule 1, page 2 of 29 totaled \$1,498,843. The division's revenues are broken out below:

Revenues by Division

Account	Description	Wildwood	Dockham Shores	LRWC	Total Company
460.00	Unmetered Sales	\$ -	\$ -	\$ 228,515	\$ 228,515
461.00	Metered Sales to General Customers	\$ 25,645	\$ 38,631	\$ 1,257,091	\$ 1,321,367
471.00	Miscellaneous Service Revenues	\$ 394	\$ 177	\$ 22,964	\$ 23,535
474.00	Other Water Revenues	\$ -	\$ -	\$ (9,727)	\$ (9,727)
		\$ 26,039	\$ 38,808	\$ 1,498,843	\$ 1,563,690

Operating Revenues

Unmetered Sales, account 460.00 totaled \$464,450 and was verified to the general ledger, the annual report schedule F-47 and the Total Company filing schedule 1, page 2 of 32, without exception. Audit tied the December billing amount of \$6,395 for Unmetered Sales shown on the general ledger to the Logics accounts receivable listing for December 31, 2019.

The non-metered systems of Tamworth Water Works (TWW), 175 Estates(175), Deer Cove (DC), Lake Ossipee Village (LOV), Indian Mound (IM) and Gunstock Glen (GG) are billed the quarterly non-metered fixed tariff rate.

Metered Sales to General Customers, account 461.00 consists of the Base Charge, the Usage Charge and the POASI (Property Owners Association at Suissevale, Inc.) Sales. The total amount for all divisions was \$1,321,367 and was verified to the general ledger, the annual report schedule F-47 and the Total Company filing schedule 1, page 2 of 32, without exception.

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The LRWC metered systems are Far Echo Harbor (FEH), Paradise Shores (PS), West Point (WP), Waterville Valley Gateway (WVG), Hidden Valley (HV), Wentworth Cove (WG), Pendleton Cove (PC), Deer Run (DR), Woodland Grove (WG), Echo Lake Woods (EHW) and Brake Hill (BH).

Account 461.03, Metered Sales totaled \$228,515 and consisted of sales from the Property Owners Association at Suissevale, Inc. (POASI). LRWC has a special contract with POASI which owns and operates its own water distribution system. POASI is an association of home owners located in Moultonborough, NH. The NH Department of Environmental Services determined that POASI is not a public water system. On 9/22/2006, a water supply agreement was entered between LRWC and POASI. The Company provided the agreement dated April 24, 2019 which showed the Rate Calculation for 2019. The total projected billing for 2019 was \$228,515 and was supported by the calculations in Appendix A. The Billing Summary showed the revised annual total as the same amount projected. This amount agreed with the general ledger at year-end 2019.

### Miscellaneous Service Revenue

The total miscellaneous service revenue for the 2019 test-year was \$23,525 with 98% from LRWC. Activity in account 471 was for disconnect/reconnect fees, house transfers, maintenance on customer's property and customer NSF and finance charges. Each Division's service charge fee is listed on the tariff page 1<sup>st</sup> Revised Page 11 and shown below:

<u>System</u>	<u>Service Call Fee</u>
Far Echo Harbor (FEH), Paradise Shores (PS), West Point (WP) Waterville Valley Gateway (WVG), Deer Run (DR), Woodland Grove (WG)	\$40
Hidden Valley (HV), Tamworth water Works (TWW)	\$45
Wentworth Cove (WC), Pendleton Cove (PC), Brake Hill (BH), Deer Cove (DC) Lake Ossipee Village (LOV), Indian Mound (IM), Gunstock Glen (GG) Dockham shores (DS)	\$50
Echo Lake Woods (ELW), 175 Estates (175E), Wildwood (WW)	\$55

Reconnect/Disconnect revenue, account 471.01 totaled \$9,920 per the general ledger at year-end. Audit reviewed samples of invoices from Paradise Shores and 175 Estates to verify the services charges for Water Off/Water On (reconnect/disconnect) service work. Each charge agreed with the tariff page 1<sup>st</sup> Revised Page 11 with no exceptions noted.

### Revenues from Contract Work

Account 415, Revenues from Contract Work totaled \$26,713 on the general ledger and represents shared services between LRW Services by LWRC. Audit reviewed the monthly invoice for December 2019 which LRWC billed LRW for leak repair, bacteria, chemical and lead and copper testing. The invoice followed the rate stipulated in the contract with no exceptions noted.

Billing Test

Audit selected a random sample of twelve customers from several different operating divisions to review the Company's water bills. Copies of the fourth quarter, 2019 invoices were requested by Audit and the Company provided a billing history for the requested customers.

The billing history for all twelve customers showed that customers were billed according to the tariffed rates for each system. Also included on two of the customer histories that had several months of past due balances was the rate case surcharge of \$11.73 which ended in the second quarter of 2019. This was approved by the PUC in Order 25,969 dated November 28, 2016. This surcharge was billed in eight quarterly charges on or after June 30, 2017.

In order to verify that Section 1203.06 Bill Forms of the PUC Administrative Rules was satisfied, the Company was able to reproduce the actual bill sent to the customer by rerunning the bill form which then showed all requirements for section 1203.06. By being able to reproduce the bill, the Company can provide the actual bill in such cases of a lost bill or a disputed bill.

OPERATIONS AND MAINTENANCE EXPENSES

Total reported Operations and Maintenance expenses on the PUC annual report for the test year were \$971,780 which represents an increase over the same period in 2018 of 8%. Audit verified the total expense to the filing "20-187\_2021-01-15\_hwrc\_perm\_rate\_schedules.pdf" schedule 1, page 2 of 107. Pages within that pdf, 34 for LWR consolidated systems, 63 for the Dockham Shores system, and 84 for the Wildwood system do not agree with the details on the annual report. The variance between the filing and the annual report is due to the posting of adjusting entries allocating the 3% of division 50 to Dockham and Wildwood. The entries were posted after the annual report had been sent to the Commission:

	<u>LRW</u>	<u>Dockham</u>	<u>Wildwood</u>	<u>12/31/2019</u>
Total Operations and Maintenance per F-48	\$ 947,713	\$ 16,471	\$ 7,596	\$ 971,780
Filing LRW pg 34, DS pg 63, WW pg 84	\$ 910,500	\$ 35,078	\$ 26,201	<b>\$ 971,779</b>
F-48 minus filing schedules 1	\$ 37,213	\$ (18,607)	\$ (18,605)	\$ 1

Refer to the detailed discussions for each expense account to determine where within the general ledger the totals are shown. Each account section also reflects the segregation by division, after the allocation of the division 50 journal entries were posted.

Dockham Shore Estates Water Company, Inc. was sold to Lakes Region Water Company effective 7/24/2017 per docket DW 16-619. The Order approving the sale, #25,964, is dated 11/10/2016. Dockham was not part of the consolidated rates, and part of the current rate case requests that the division be approved for consolidation. As a result, the division's expenses are identified separately from the other divisions. Allocations of 3% of division 50-Admin journal postings were noted. The 3% is based on the customer count.

Via docket DW 17-176, Order #26,144 dated 6/15/2018, the Wildwood Water Company was purchased by Lakes Region, and the customers would remain on the existing Wildwood tariff, which was incorporated into the tariff of Lakes Region. As a result, the Wildwood division of Lakes Region

## Attachment E

is shown separately within the Operations and Maintenance section of the annual report. As above, allocations of 3% of division 50-Admin journal postings were noted. The 3% is based on the customer count.

**2019 Operations and Maintenance per F-48**

	LRW	Dockham	Wildwood	2019	2018	% change
603 Miscellaneous Expenses	\$ 3,121	\$ 119	\$ 239	\$ 3,479	\$ 3,619	-4%
604 Rents	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ 1,000	0%
623 Fuel or Power Purchased for Pumping	\$ 90,059	\$ 4,678	\$ 3,464	\$ 98,201	\$ 95,107	3%
624 Pumping Labor and Expenses	\$ 1,498	\$ 280	\$ -	\$ 1,778	\$ -	#DIV/0!
630 Maintenance Supervision and Engineering	\$ 7,067	\$ 2,730	\$ 183	\$ 9,980	\$ 11,657	-14%
631 Maintenance of Structures and Improvements	\$ 9,018	\$ -	\$ -	\$ 9,018	\$ 7,360	23%
633 Maintenance of Pumping Equipment	\$ 1,757	\$ 250	\$ -	\$ 2,007	\$ 3,819	-47%
641 Chemicals	\$ 847	\$ -	\$ -	\$ 847	\$ -	#DIV/0!
642 Operation Labor and Expenses	\$ 6,544	\$ 530	\$ 399	\$ 7,473	\$ 5,950	26%
643 Miscellaneous Expenses	\$ 26,161	\$ 5,546	\$ 1,545	\$ 33,252	\$ 17,182	94%
652 Maintenance of Water Treatment Equipment	\$ 3,295	\$ -	\$ -	\$ 3,295	\$ -	#DIV/0!
662 Transmission and Distribution Lines Expenses	\$ 156,378	\$ 1,471	\$ 1,078	\$ 158,927	\$ 124,086	28%
665 Miscellaneous Expenses	\$ 2,587	\$ -	\$ -	\$ 2,587	\$ 570	354%
671 Maintenance of Structures and Improvements	\$ 2,367	\$ -	\$ -	\$ 2,367	\$ 122	1840%
673 Maintenance of Trans and Distribution Mains	\$ 54,302	\$ 110	\$ 132	\$ 54,544	\$ 23,394	133%
675 Maintenance of Services	\$ 1,281	\$ -	\$ -	\$ 1,281	\$ 9,462	-86%
676 Maintenance of Meters	\$ 3,463	\$ -	\$ 16	\$ 3,479	\$ 763	356%
678 Maintenance of Miscellaneous Equipment	\$ -	\$ -	\$ -	\$ -	\$ 6,656	-100%
902 Meter Reading Expenses	\$ 10,618	\$ 222	\$ 126	\$ 10,966	\$ 11,643	-6%
903 Customer Records and Collection Expenses	\$ 29,403	\$ -	\$ -	\$ 29,403	\$ 34,177	-14%
904 Uncollectible Accounts	\$ 20,708	\$ 146	\$ -	\$ 20,854	\$ 2,544	720%
905 Miscellaneous Customer Accounts Expenses	\$ 1,161	\$ -	\$ -	\$ 1,161	\$ 1,552	-25%
920 Administrative and General Salaries	\$ 253,693	\$ 89	\$ 59	\$ 253,841	\$ 239,855	6%
921 Office Supplies and Other Expenses	\$ 18,160	\$ -	\$ -	\$ 18,160	\$ -	#DIV/0!
923 Outside Services Employed	\$ 33,782	\$ -	\$ -	\$ 33,782	\$ 58,850	-43%
924 Property Insurance	\$ 39,519	\$ -	\$ -	\$ 39,519	\$ 31,442	26%
926 Employee Pension and Benefits	\$ 58,990	\$ -	\$ -	\$ 58,990	\$ 55,095	7%
928 Regulatory Commission Expenses	\$ 42,134	\$ -	\$ 54	\$ 42,188	\$ 74,348	-43%
930 Miscellaneous General Expenses	\$ 68,800	\$ 300	\$ 301	\$ 69,401	\$ 76,547	-9%
Total Operations and Maintenance	\$ 947,713	\$ 16,471	\$ 7,596	\$ 971,780	\$ 896,800	8%

Labor booked monthly to account 601.01 Labor-Source Other was allocated among more specific expense or capital accounts on a quarterly basis. The balance at year-end was zero. Refer to the Payroll portion of this report for additional details.

**Accounts Payable**

For the test year ending 12/31/2019, Schedule F-1 of the PUC annual report, reflects a year-end balance of \$(61,669), a reduction from the prior year of \$(100,788). These amounts agreed with the Filing, "Total Co BS Liab, Schedule 2, Page 2 of 2" within the "DW 20-187 Permanent Rate Schs". The 2019 balance was verified to the general ledger accounts:

#231 Accounts Payable	\$(60,460.11)
#231a Amex	\$ (1,211.86)
Total Accounts Payable	\$(61,671.97) immaterial rounded \$(3) variance

## Attachment E

Audit requested and was provided with the detailed accounts payable listing as of 12/31/2019. The report reflected:

1-30 Days past due	\$ (602.90)	03 invoices
Current	\$(59,875.21)	88 invoices
91 or more Days past due	<u>\$ 18.00</u>	01 vendor credit
Total account #231	\$(60,460.11)	

The \$(1,211.86) listed for account #231a was verified to a December 2019 Transaction Report for Amex. (American Express credit cards issued to T. Mason and J. Benes) Also provided was a statement from the credit card company detailing current charges.

The Company appears to be managing its payables. A review of the Accounts Payable balances since the prior rate case (test year 2014) demonstrates the improvement. Audit reviewed the general ledgers for all years 2015 through 2019:

12/31/2014	\$(196,553)	prior test year
12/31/2015	\$(204,323)	
12/31/2016	\$(173,581)	
12/31/2017	\$(126,243)	
12/31/2018	\$(100,788)	
12/31/2019	\$ (61,669)	

### Source of Supply Expenses

	LRW	Dockham	Wildwood	12/31/2019
603 Miscellaneous Expenses	\$ 3,121	\$ 119	\$ 239	\$ 3,479
604 Rents	\$ 1,000	\$ -	\$ -	\$ 1,000
Total Source of Supply Operation	\$ 4,121	\$ 119	\$ 239	\$ 4,479
LRW pg 34, DS pg 63, WW pg 84	\$ 4,117	\$ 121	\$ 240	\$ 4,478
F-48 minus filing schedules 1	\$ 4	\$ (2)	\$ (1)	\$ 1

### Account 603 Miscellaneous Expenses - \$3,479

The 2019 balance is a decrease of 4% from the 2018 balance, and was verified to the general ledger:

	Total	LRW	DS	WW
603.01 Labor-Maintenance	\$ 913.73	\$ 786.00	\$ 19.11	\$108.62
603.02 Materials	\$1,499.81	\$1,396.33	\$101.74	\$ 1.74
603.03 Contract Services	<u>\$1,065.00</u>	<u>\$ 935.00</u>	<u>\$ -0-</u>	<u>\$130.00</u>
	\$3,478.54	\$3,117.33	\$120.85	\$240.36

The 603.01 Labor activity is the sum of 18 entries posted on 12/31/2019 that allocated 4<sup>th</sup> quarter work order labor. Refer to the Payroll section for additional Labor details.

## Attachment E

Account 603.02, Materials is the sum of ten entries. Audit selected two specific entries for review:

\$621.85 posted 06/04/2019 paid to Water Industries, Inc. for well maintenance at division 15, LOV

\$540.00 posted 12/31/2019 as a reclassification from CWIP relative to division 09, WG

Account 603.03, Contract Services is the sum of eight entries, paid to LRW Water Services (excavation at Far Echo Harbor), Guy Shannon (welding services), Kevin and Abbie Hickey (snow plow), and Richard MacNeill (materials).

Account 604 Rents - \$1,000

The annual Rent expense was unchanged from 2018 to 2019. The figure represents rent paid to Deer Cove North Corporation for annual rent pumped from the Deer Cove wells for 2019. The one entry was posted 01/02/2019, specifically for division 14, Deer Cove.

Pumping Expenses

	LRW	Dockham	Wildwood	12/31/2019
623 Fuel or Power Purchased for Pumping	\$ 90,059	\$ 4,678	\$ 3,464	\$ 98,201
624 Pumping Labor and Expenses	\$ 1,498	\$ 280	\$ -	\$ 1,778
630 Maintenance Supervision and Engineering	\$ 7,067	\$ 2,730	\$ 183	\$ 9,980
631 Maintenance of Structures and Improvements	\$ 9,018	\$ -	\$ -	\$ 9,018
633 Maintenance of Pumping Equipment	\$ 1,757	\$ 250	\$ -	\$ 2,007
Total Pumping Expenses	\$ 109,399	\$ 7,938	\$ 3,647	\$ 120,984
LRW pg 34, DS pg 63, WW pg 84	\$ 109,180	\$ 8,047	\$ 3,757	\$ 120,984
F-48 minus filing schedules 1	\$ 219	\$ (109)	\$ (110)	\$ -

Account 623 Fuel or Power Purchased for Pumping - \$98,201

Account 623 reflects a 3% increase over the 2018 year-end balance. Audit verified the 2019 year-end figure to the general ledger account 623. Activity in the account reflected monthly payments to Eversource, NHEC, and the town of Wolfeboro. Specifically:



## Attachment E

Wolfeboro	12 entries for division	05-HVS	\$ 2,856.23	one meter
NHEC	13 entries for division	01-FEH	\$ 3,073.34	one meter, one adjustment \$71
NHEC	52 entries for division	02-PS	\$22,383.35	four meters
NHEC	24 entries for division	03-WP	\$ 3,330.43	two meters
NHEC	12 entries for division	04-WVG	\$ 4,525.44	one meter
NHEC	11 entries for division	05-HVS	\$ 1,751.98	one meter
NHEC	12 entries for division	08-DR	\$ 3,981.65	one meter
NHEC	1 entry for division	09-WG	\$ 271.45	should be for division 10
NHEC	12 entries for division	10-ELW	\$ 3,273.53	one meter
NHEC	12 entries for division	13-175E	\$ 3,775.96	one meter
NHEC	1 entry for division	14-DC	\$ 211.90	only one entry-see Eversource
NHEC	6 entries for division	50-Admin	\$ 1,917.86	one meter
Eversource	12 entries for division	06-WC	\$ 2,117.49	one meter
Eversource	12 entries for division	07-PC	\$ 3,865.26	one meter
Eversource	11 entries for division	09-WG	\$ 4,059.85	two meters
Eversource	11 entries for division	11-BH	\$ 2,374.35	one meter
Eversource	12 entries for division	12-TWW	\$ 4,497.77	one meter
Eversource	11 entries for division	14-DC	\$ 2,166.02	one meter see NHEC above
Eversource	24 entries for division	15-LOV	\$ 9,057.09	two meters
Eversource	12 entries for division	16-IM	\$ 4,570.98	one meter
Eversource	13 entries for division	17-GG	\$ 5,786.76	one meter
Eversource	23 entries for division	18-DS	\$ 4,677.70	two meters-under by \$339.13
Eversource	14 entries for division	19-WW	\$ 3,463.74	one meter-\$339.13 sb #18.
	\$200.05 sb 09-WG			
Premier Pump & Supply, Inc.	1 entry div.	06-WC	\$ 210.47	mispost
	Total account 623 for 2019		\$98,200.60	

NHEC 02-PS has electric meters at four locations. Audit noted twelve entries for two meter locations, but thirteen entries for two other locations. Audit requested clarification of the meter locations for NHEC accounts:

6007023800 HB Mount Roberts Water Station includes twelve entries  
6007473900 Route 109 Mount Roberts Storage Tank Control House includes twelve entries  
5185137010 Shangri-La Well Station Pump invoice for **01/01/2019 \$29.32** should be excluded  
5190160510 Paradise Drive Well Station Pump invoice for **01/01/2019 \$691.82** should be excluded

05/06/2019 \$210.47 was paid to Premier Pump & Supply, Inc. for a 3 HP control box and bulk head fitting for division 06-WC. The invoice and materials purchased are reasonable, but **should have been posted to account 633**. The amount is not material and does not change the overall Operations and Maintenance expense total.

Audit also requested documentation for:

05/23/2019 NHEC 10-ELW \$510.80 was verified to the invoice, but should have been identified as division 02-Paradise Shores.  
08/28/2019 Eversource 09-WG \$504.40 was verified to the invoice, but should have been identified as division 19-Wildwood.  
01/11/2019 Eversource 17-GG \$170.64 was verified to the invoice.

To summarize, the test year, account 623 Fuel or Power Purchased for Pumping - \$98,201 should be adjusted as:

	<u>LRW</u>	<u>DS</u>	<u>WW</u>	<u>Total</u>	
	\$90,059.16	\$4,677.70	\$3,463.74	\$98,200.60	
1/1/2019	\$ (29.32)			\$ (29.32)	
1/1/2019	\$ (691.82)			\$ (691.82)	
Premier Pump	\$ (210.47)			\$ (210.47)	
Mispost	\$	\$ 339.13	\$ (339.13)	\$ -0-	
Mispost	<u>\$ 200.05</u>		<u>\$ (200.05)</u>	<u>\$ -0-</u>	
	\$89,327.60	\$5,016.83	\$2,924.56	\$97,268.99	<b>Audit Issue #8</b>

Account 624 Pumping Labor and Expenses - \$1,778

In 2018, the 624 account had a zero balance. Activity in the account reflected adjustments to 3<sup>rd</sup> quarter work orders W3 2019 on September 30, 2019 and 4<sup>th</sup> quarter work order adjustments posted on December 31, 2019. Miscellaneous pump related work for several divisions was noted among the seventeen entries. The balance in the account posted to the divisions as follows:

LRW	\$1,497.92
Dockham	\$ 280.00
Wildwood	<u>\$ -0-</u>
Total	\$1,777.92

Refer to the Payroll section of this report for Labor related details.

Account 630 Maintenance Supervision and Engineering - \$9,980 less \$2,335 = \$7,645

Account 630 demonstrated a reduction of 14% over the 2018 year-end balance. Of the 111 entries, 105 were noted as quarterly adjustments to work orders regarding “checking pump house”. Each of those entries was immaterial. Four entries netting to zero were identified as allocation of “3% 50-Admin” for \$0.73 out of division 50 and into divisions 18-DS and 19-WW.

Two entries appear to be non-recurring. See **Audit Issue #7:**  
 \$1,210.00 posted 2/18/2019 from Lewis Engineering PLLC, described as “close final as-built plans for DS ACAD plan sets”.

\$1,125.00 posted 4/17/2019 from Lewis Engineering PLLC, described as “Tech services to respond to data requests”.

As a result of the non-recurring entries, for rate-case purposes, the total for account 630 should be reduced by \$2,335.

Audit verified the divisional postings and summarizes the recommended filing adjustments as:

	<u>General</u>	<u>Recommended</u>	
	<u>Ledger</u>	<u>Adjustment</u>	<u>Net for Filing</u>
LRW	\$7,065.45	\$ -0-	\$7,065.45
Dockham	\$2,730.78	\$(2,335.00)	\$ 395.78
Wildwood	<u>\$ 184.16</u>	<u>\$ -0-</u>	<u>\$ 184.16</u>
	\$9,980.39	\$(2,335.00)	\$7,645.39

Account 631 Maintenance of Structures and Improvements - \$9,018

Account 631 shows an increase of 23% over the 2018 year-end balance. Of the 31 entries to the account, four summing to \$4,200 for the removal of trees, and two that sum to \$2,675 relate to pump station upgrades. The remaining entries were small dollar items and allocations of the quarterly work orders. The divisional split was verified to be:

LRW	\$8,982.09
Dockham	\$ 17.97
Wildwood	<u>\$ 17.97</u>
	\$9,018.03

Audit requested clarification of the 12/31/2019 LRW Water Services, Inc. invoices for pump station upgrades:

\$1,400.00	– Pete 28 hours
\$1,275.00	– Brandon 25.5 hours

Both entries were supported with a 12/31/2019 invoice for work done during May 2019 at Wentworth Cove. The work was installation of electrical service, switching over the service, trench and site cleaning. While this specific location will not require similar upgrades as regular maintenance, any one of the other divisions may.

Account 633 Maintenance of Pumping Equipment - \$2,007

Account 633, at year-end 2018 reflected a balance of \$3,819. The 2019 activity reflected 16 entries totaling \$2,007.35. Entry descriptions include quarter one work order allocations that sum to \$521.50; three entries dated 4/8/2019 were for 3/21/2019 adjustment of drives, billed from LRW Water Service which worked alongside Premier Pump & Supply. The total of those entries is \$400.00. Four entries for transducers and a line reactor, purchased from RE Prescott Co., Inc., sum to \$1,085.50. The divisional split was verified to be:

	<u>GL</u>	<u>Reclassification</u>	<u>Adjusted</u>
LRW	\$1,690.24	\$210.47 misposted to account 623	\$1,900.71
Dockham	\$ 283.34		\$ 283.34
Wildwood	<u>\$ 33.77</u>		<u>\$ 33.77</u>
	\$2,007.35		\$2,217.82

Water Treatment Expenses

	LRW	Dockham	Wildwood	12/31/2019
641 Chemicals	\$ 847	\$ -		\$ 847
642 Operation Labor and Expenses	\$ 6,544	\$ 530	\$ 399	\$ 7,473
643 Miscellaneous Expenses	\$ 26,161	\$ 5,546	\$ 1,545	\$ 33,252
652 Maintenance of Water Treatment Equipment	\$ 3,295	\$ -	\$ -	\$ 3,295
Total Water Treatment Expenses	\$ 36,847	\$ 6,076	\$ 1,944	\$ 44,867
LRW pg 34, DS pg 63, WW pg 84	\$ 36,700	\$ 6,149	\$ 2,017	\$ 44,866
F-48 minus filing schedules 1	\$ 147	\$ (73)	\$ (73)	\$ 1

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Account 641 Chemicals - \$847

Account 641 reflected three entries during the test year. For the year ended 2018, there was no activity in the account. The activity reflected purchases from RE Prescott Co., Inc. for:

Sterling CP-35 5 gallon phosphate blend	for 01-FEH	02/06/2019	\$320.60
CP-35 5 gallon orthophosphate	for 01-FEH	09/11/2019	\$320.60
Potassium Carbonate	for 14-DC	10/09/2019	<u>\$206.44</u>
			\$847.44

Account 642 Labor-Treatment - \$7,473

The 2019 year-end figure represents an increase over the 2018 balance of \$1,523, or 26%. Audit reviewed the activity in the account and noted 180 individual work order transactions, averaging \$41.52. Refer to the Payroll section of this report for information related to Labor. Audit verified the divisional split to the general ledger:

LRW	\$6,515.88
Dockham	\$ 544.05
Wildwood	<u>\$ 413.10</u>
	\$7,473.03

Account 643 Miscellaneous Expenses - \$33,252

The 2019 balance is an increase of 94% over the 2018 year-end balance. Both balances were included on Schedule 1C of the filing within the file "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules.pdf". Audit tied the totals to the following accounts:

	2019 Balance	2018 Balance	Change
643.01 Materials	\$ 6,696.50	\$ 5,747.18	\$ 949.32
643.02 Water Tests	<u>\$26,555.00</u>	<u>\$11,435.00</u>	<u>\$15,120.00</u>
	\$33,251.50	\$17,182.18	\$16,069.32

Activity in 2018 in account 643.01 showed 34 entries, averaging \$169.03.  
Activity in 2018 in account 643.02 included 211 entries averaging \$54.19.

The divisional split in the general ledger was verified to be:

	<u>#643.01</u>	<u>#643.02</u>	<u>Total 643</u>
LRW	\$5,827.96	\$20,218.00	\$26,045.96
Dockham	\$ 811.32	\$ 4,792.00	\$ 5,603.00
Wildwood	<u>\$ 57.22</u>	<u>\$ 1,545.00</u>	<u>\$ 1,602.22</u>
Totals	\$6,696.50	\$26,555.00	\$33,251.50

From the 19 entries booked to account 643.01 during the test year, two were selected for testing:

Posted to the general ledger on 04/03/2019, bill #466151 for \$1,588.80 from RE Prescott Co., Inc. for division 09- WG, was traced to the invoice which included a line for 80 pallets of fifty

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50 pound bags of Georgia Marble salt. The balance of the invoice, \$308.91, for a variety of tubes, gravel, etc., posted to account 662.03.

Another invoice from RE Prescott, dated 04/12/2019, bill #466895 in the amount of \$1,295.65 was booked to the general ledger 4/12/2019 to division 50. The details of the invoice showed the purchase of three WIKA C-10 transmitters 0-5 PSI and two WIKA C-10 transmitters 0-100 PSI. The price was \$259.13 per transmitter.

During the test year there were 250 entries booked to account 643.02, all invoiced from Eastern Analytical, Inc. Audit selected the following to review:

11/11/2019 Bill 203284 Eastern Analytical Inc. 18- DS \$1,472.00 verified to the invoice for testing for nitrate, PFAS EPA method 537 mod (4 compounds), SOC, VOC trip blank and overnight shipping and handling to the sub-lab;

09/13/2019 Bill 200718 Eastern Analytical Inc. 17- GG \$1,037.00 verified to the invoice for NH PWS IOC requirements, nitrate, cyanide, SOC, and VOC;

02/22/2019 Bill 192847 Eastern Analytical Inc. 11- BH \$1,692.00 was verified to the invoice for testing for nitrate, arsenic, SOC, and VOC;

01/14/2019 Bill 191621 Eastern Analytical Inc. 18- DS \$1,201.00 was verified to the invoice for NH PWS IOC requirements, nitrate, coliform MPN, E-coli MPN, uranium ICPMS, subcontract gross alpha KNL, subcontract radium, EAI SOC, EAI VOC.

Account 652 Maintenance of Water Treatment Equipment - \$3,295

During the test year there were eleven entries, all of which were allocations of work orders. There was no activity in the account during 2018. The test year activity was the result of more appropriate accounting and more specific system work. Audit selected one entry for detailed review:

12/31/2019 Journal Entry Adj WO Q4 02- PS Leak-system -Split- \$1,264.33 The journal entry is one of 51 specific entries in a large posting that sums to \$8,399.93, allocating the fourth quarter work orders among several accounts and divisions.

The balance was reflected on the general ledger for the divisions as:

LRW	\$3,290.81
Dockham	\$ 2.10
Wildwood	<u>\$ 2.10</u>
	\$3,295.01

**Transmission and Distribution Expenses**

	LRW	Dockham	Wildwood	12/31/2019
662 Transmission and Distribution Lines Expenses	\$ 156,378	\$ 1,471	\$ 1,078	\$ 158,927
665 Miscellaneous Expenses	\$ 2,587	\$ -	\$ -	\$ 2,587
671 Maintenance Supervision and Engineering	\$ 2,367	\$ -	\$ -	\$ 2,367
673 Maintenance of Trans and Distribution Mains	\$ 54,302	\$ 110	\$ 132	\$ 54,544
675 Maintenance of Services	\$ 1,281	\$ -	\$ -	\$ 1,281
676 Maintenance of Meters	\$ 3,463	\$ -	\$ 16	\$ 3,479
678 Maintenance of Miscellaneous Equipment	\$ -	\$ -	\$ -	\$ -
Total Transmission and Distribution Expenses	\$ 220,378	\$ 1,581	\$ 1,226	\$ 223,185
LRW pg 34, DS pg 63, WW pg 84	\$ 212,995	\$ 5,273	\$ 4,917	\$ 223,185
F-48 minus filing schedules 1	\$ 7,383	\$ (3,692)	\$ (3,691)	\$ -

**Account 662 Transmission and Distribution Lines Expenses - \$158,927**

The 2019 balance represents a 28% increase over the 2018 ending balance. Audit verified the total to the following:

	<u>2019 balances</u>	<u>2018 balances</u>	<u>change</u>
662.01 Labor-T&D	\$ 43,948.67	\$ 39,383.73	\$ 4,564.94
662.02 Materials	\$ 42,702.09	\$ 16,379.30	\$26,322.79
662.03 Contract Services	\$ -0-	\$ 633.86	\$ (633.86)
662.04 Equip Repair/Rental	\$ 9,491.19	\$ 15,995.00	\$ (6,503.81)
662.05 Vehicle Fuel	\$ 32,657.57	\$ 25,437.82	\$ 7,219.75
662.06 Vehicle Maintenance	\$ 12,457.11	\$ 10,520.85	\$ 1,936.26
662.07 Vehicle Registration	\$ 4,518.10	\$ 4,155.80	\$ 362.30
662.08 Telemetry Telephone	\$ 12,090.00	\$ 11,400.00	\$ 690.00
662.09 Misc. Line Expense	\$ 1,062.72	\$ 179.74	\$ 882.98
Total 662	\$158,927.45	\$124,086.10	\$34,841.35

Audit reviewed each account:

662.01 Labor-T&D \$43,948.67 increased from the 2018 year-end balance of \$39,383.73. The 252 journal entries in the 2019 account activity posted work order labor monthly. Refer to the Payroll portion of this report. The balance was reflected on the general ledger for the divisions as:

LRW	\$42,544.33
Dockham	\$ 596.73
Wildwood	\$ 807.61
	\$43,948.67

662.02 Materials \$42,702.09 increased from the 2018 balance of \$16,379.30. The balance was reflected on the general ledger for the divisions as:

LRW	\$40,141.05
Dockham	\$ 1,372.46
Wildwood	\$ 1,188.58
	\$42,702.09

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Audit reviewed the 87 journal entries and selected four for detailed review:

04/17/2019 Water Industries, Inc. 50- Admin \$2,320.46 verified to the invoice for 2 pitless (LF), 3 check valves, 12 curb boxes, 3 6" perm gaskets, 6 ball stops, and 1 SB dresser coupling;

06/11/2019 Water Industries, Inc. 50- Admin \$2,370.28 verified to the invoice for male adapters, pipe, and ball stops;

09/20/2019 EJP (Everett J Prescott) 50- Admin \$1,913.40 verified to the invoice for a valve box cover and box top extensions;

10/22/2019 Water Industries, Inc. 50- Admin \$1,769.30 verified to the invoice for stainless steel nut/bolt kit, perm gaskets brass insert couplings, brass comb, brass adapters, brass insert couplings, stainless steel insert coupling and brass saddles.

662.03 Contract Services reflected \$ -0- at year-end 2019, down from an immaterial \$633.86 at year-end 2018. Further review was not conducted.

662.04 Equip Repair/Rental \$9,491.19 reflected a decrease from the 2018 year-end balance of \$15,995.00. The 2019 balance was reflected on the general ledger for the divisions as:

LRW	\$8,945.21
Dockham	\$ 272.99
Wildwood	<u>\$ 272.99</u>
	\$9,491.19

Audit reviewed the account activity and selected three specific entries for detailed review:

02/06/2019 Bill 102056 LRW Water Services, Inc. 50- Admin \$3,600.00. The figure was verified to an invoice for annual skid steer rental. The skid steer was not noted as part of the affiliate agreement.

02/06/2019 Bill 102056 LRW Water Services, Inc. 50- Admin \$4,500.00  
This figure was verified to an annual Vermeer vac yearly fee. The Vermeer vac is not part of the affiliate agreement. Both entries were included on the same LRW Water Service, Inc. invoice #102056.

03/19/2019 Utilitronics invoice totaling \$278.66 for rebuilding battery assembly chassis for a Schonstedt GA-52B (pipe locator), replaced batteries, and replaced housing with used part. Field tested with all parts performing as necessary. The repairs were needed due to the device being left outside overnight.

662.05 Vehicle Fuel \$ 32,657.57 represented an increase over the 2018 balance of \$25,437.82. The 2019 balance was reflected on the general ledger for the divisions as:

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LRW	\$30,698.11
Dockham	\$ 979.73
Wildwood	<u>\$ 979.73</u>
	\$32,657.57

Audit reviewed the activity in the account and noted 77 entries for Irving Oil Marketing, Inc. and Skelley's Market. Skelley's is a convenience store and gas station within the neighborhood of Lakes Region. Audit selected one invoice for review:

09/01/2019 Bill 33085668 Irving Oil Marketing, Inc. 50- Admin \$1,014.63 was verified to the invoice number indicated, as vehicles owned by Lakes Region. The total invoice was \$2,833.70, with the remainder of the invoice paid by LRW Water Services.

Average gas price in 2019 was \$2.31 and for 2018 was \$2.45 per gallon (per an article in the Eagle Times). Average diesel price in 2019 was \$2.47 vs. \$2.60 in 2018 according to the NH Department of Transportation.

662.06 Vehicle Maintenance \$12,457.11 is the total of 54 journal entries, and represents an increase over the 2018 year-end balance of \$10,520.85. The general ledger shows the division totals as:

LRW	\$11,709.69
Dockham	\$ 373.71
Wildwood	<u>\$ 373.71</u>
	\$12,457.11

Audit reviewed the activity and verified entries related to auto supply stores. Two entries were selected for review:

02/25/2019 Expense Northern Tire and Alignment, Inc. 50- Admin \$1,083.90 was verified to an invoice for four Toyo Open Country AT2 tires, mounted and balanced, and tire disposal fee, for the 2018 Ford F250 Super Duty.

05/21/2019 Expense bill #45932 Northern Tire and Alignment, Inc. 50- Admin \$1,001.48 was verified to an invoice for four Toyo Open Country AT2 tires, mounted and balanced, for the Ford F350 Super Duty.

662.07 Vehicle Registration \$4,518.10 2019 balance increased over the 2018 balance of \$4,155.80. There were nine entries in the account, the largest, \$3,392.93 was selected for review. The amount posted on 06/11/2019 for the Town of Moultonborough - Tax Collector, to division 50- Admin.

Additional entries during the year were related to registrations for a new trailer, 2020 Fell FT 161T \$513.33, and 2019 Ford F-150 \$392. The 2019 Ford replaced a 2014 pick-up truck that had been registered for the year for \$204.70. That registration expense will be non-recurring. However, the full year registration for the 2019 Ford F-150 will be higher than \$392. Audit compared the registration details to the continuing property records. Three trailers listed on the continuing property records were not included in the registration expense. Audit requested clarification and was told they should have been retired. Refer to the Plant section of this report for additional details.



## Attachment E

The general ledger reflects the balance among the divisions as:

LRW	\$4,247.02
Dockham	\$ 135.54
Wildwood	<u>\$ 135.54</u>
	\$4,518.10

Each of the Dockham and Wildwood figures represents 3% of the total account balance.

662.08 Telemetry Telephone \$12,090.00 expense total incurred in 2019 represents an increase over the 2018 balance of \$11,400.00. The spread of the cost among the divisions was noted in the general ledger as:

LRW	\$11,049.00
Dockham	\$ 730.50
Wildwood	<u>\$ 310.50</u>
	\$12,090.00

Audit reviewed the 102 journal entries in the 2019 account activity. The monthly entries represent the expensing of the annual prepayment made to Generating Solutions, which is paid at beginning of year. An invoice for \$10,410 dated 12/11/2018 for calendar year 2019 coverage was reviewed and indicated:

GS300 monitoring service for fifteen specific systems,	\$ 6,300
GS300 monitoring service for one spare device	\$ 210
GS400 monitoring service for five systems,	\$ 3,600
GS400 monitoring service for Wildwood for five months	<u>\$ 300</u>
	\$10,410

As new telemetry equipment is purchased, that equipment is added to the subscription, pro-rated for the year. The offset is credited to the prepaid account 162.03, Prepaid Monitoring. Details regarding the expense and prepaid accounts are discussed in the Prepaid portion of this report.

662.09 Misc. Line Expense total of \$1,062.72 is a significantly higher balance than the prior year, \$179.74. Of the nine entries noted in the account, Audit selected one for review:

02/12/2019 Bill 62023643 F. W. Webb Company 50- Admin 231 Accounts Payable (A/P) \$664.54 This figure was verified to an invoice dated 2/12/2019 from F.W. Webb for fourteen line items of specific small dollar items such as fittings, adaptors, etc.

The general ledger demonstrated the total among the divisions for account 662.09 as:

LRW	\$1,007.04
Dockham	\$ 27.84
Wildwood	<u>\$ 27.84</u>
	\$1,062.72

The Dockham and Wildwood represent a rounded 3% of the total account.

Account 663 Meter Expenses - \$0

There were only two entries in the account during the test year. One debit in April for \$72.35 was then reversed in May.

Account 665 Miscellaneous Expense \$2,587

Account 665 reflected an increase of 354% over the 2018 year-end balance. The total is the sum of:

Account 665 Miscellaneous Expense	\$2,517.96
Account 665.02 Laboratory Testing	<u>\$ 69.00</u>
	\$2,586.96

By division, the general ledger reflected:

	<u>Account 665</u>	<u>Account 665.02</u>	<u>Total Account 665</u>
LRW	\$2,428.10	\$69.00	\$2,497.10
Dockham	\$ 44.93	\$ -0-	\$ 44.93
Wildwood	<u>\$ 44.93</u>	<u>\$ -0-</u>	<u>\$ 44.93</u>
	\$2,517.96	\$69.00	\$2,586.96

Audit selected two of the 21 journal entries from account 665 to review in detail:

01/28/2019 Bill 4584 Bruce Robinson Company 50- Admin 231 Accounts Payable (A/P) \$676.80 was verified to an invoice for 22.56 tons of salt/sand mix to be used in the yard.

1/29/2019 Bill 102045 LRW Water Services, Inc. 50- Admin 231 Accounts Payable (A/P) \$820.75 was verified to an invoice dated 1/29/2019 for salt/sand mix.

There was one entry in account 665.02 which was not reviewed due to the immateriality of the account.

Account 671 Maintenance of Structures and Improvements - \$2,367

The total amount in account 671 represents an increase of 1,840% over the \$122 year-end 2018 balance. While the increase is significant, the dollar amount is not. Audit reviewed the eleven journal entries within the account and selected one for specific review:

03/28/2019 Bill 32819 W. Caleb Johnson Builder 09- WG \$1,322.37 was verified to an invoice dated 3/28/2019 for *“labor and materials to cut out damaged plywood and replace with pressure treated plywood, patch in vinyl siding above side entry door, cut out section of ceiling plywood and inspect insulation in attic then replace plywood”* due to rotting wood. This type of expense is likely more routine than not, given the nature of the utility.

Audit verified the divisional representation on the general ledger:

LRW	\$2,321.82
Dockham	\$ 22.44
Wildwood	<u>\$ 22.44</u>
	\$2,366.70

Account 673 Maintenance of Transmission and Distribution Mains - \$54,544

The 2019 year-end balance within account 673 represents an increase of 133% over the 2018 balance. Both balances were included on Schedule 1C of the filing within the file "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules.pdf". The 2019 balance is reflected in the general ledger, spread among the divisions as:

	<u>Per GL</u>	<u>Recommended Adjust</u>	<u>Recommended Total</u>
LRW	\$53,127.25	\$(1,805.00)	\$51,322.25
Dockham	\$ 697.57		\$ 697.57
Wildwood	\$ 719.19		\$ 719.19
	\$54,544.01	\$(1,805.00)	\$52,739.01

Audit reviewed the 2019 activity which included 134 journal entries. From that, the following were selected for detailed review:

01/04/2019 Bill 102028 LRW Water Services, Inc. 06- WC Leak repair \$1,025.00 was verified to an invoice detailing assistance with water leak repair at the Wentworth Cove division on 1/2/2019. The specifics were:  
 Labor 7 hours @ \$50 per hour \$ 350  
 14 yards 1 1/2" gravel \$ 275  
 Vermeer vac 4 hours @ \$100 per hour \$ 400  
\$1,025

01/04/2019 Bill 102030 LRW Water Services, Inc. 17- GG Leak repair \$1,805.00 was verified to an invoice detailing repair to a leak in the Gunstock Glen division on 12/13/2018. The invoice was dated 1/4/2019 and showed:  
 Labor 6 hours @ \$50 per hour \$ 300  
 Dump Truck 7 hours @ \$90 per hour \$ 630  
 Excavator 7 hours @ \$125 per hour \$ 875  
\$1,805 This invoice should have been accrued in 2018, and as a result, should be considered non-recurring for the test year. See **Audit Issue #7**

02/06/2019 Bill 102055 LRW Water Services, Inc. 05- HVS Leak repair labor \$1,925.00 was verified to an invoice dated 2/6/2019 for service provided as follows:  
 1/14/2019 pull well at Hidden Valley 7 hours @ \$50 per hour \$ 350  
 1/15/2019 repair leak at Hidden Valley 6 hours @ \$50 per hour \$ 300  
 1/15/2019 work w/Sabourn Electric lower pump station HVS 3 hrs @ \$50 \$ 150  
 1/16/2019 finish installing new drive and filter HVS 5 hours @ \$50 \$ 250  
 1/16/2019 work on leak detection 9 hours @ \$50 per hour HVS \$ 450  
 1/17/2019 repair leak at Hidden Valley 8.5 hours @ \$50 per hour \$ 425  
\$1,925

02/28/2019 Bill 121621 Premier Pump & Supply, Inc. 50- Admin \$1,402.20 was verified to an invoice for male adapters, female adapters, and couplings.

05/16/2019 Bill 128969 Water Industries, INC 50- Admin \$2,508.24 was verified to an invoice for balls stops and curb boxes.

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06/12/2019 Bill 5548465 EJP (Everett J Prescott) 50- Admin \$1,503.66 was verified to invoice for a variety of couplings, all lead free.

06/30/2019 Journal Entry 6302019 07- PC To increase flow up to top of Plantation Rd \$2,586.39. The entry reclassified the amount out of the CWIP. Details supporting the total represent materials, plumbing, quick cap, and valve line check that had been posted to CWIP in May 2019.

07/23/2019 Bill 63860952 F. W. Webb Company 50- Admin stock \$1,151.36 was verified to an invoice for a wide variety of small dollar materials.

08/13/2019 Bill 130148 Water Industries, INC 50- Admin Brass insert coupling, adapter, comb, ball stop \$1,174.22 agrees with the invoice demonstrating the same materials listed in the general ledger entry.

08/19/2019 Bill 5585824 EJP (Everett J Prescott) 50- Admin stock \$1,050.40 for a variety of couplings, all lead-free.

#### Account 675 Maintenance of Services - \$1,281

Account 675 represents a decrease of 86% from the 2018 balance of \$9,462. Both balances were included on Schedule 1C of the filing within the file "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules.pdf", however incorrectly identified as account 673. Activity in 2019 showed five entries, none of which was selected for review. The activity related to LRW consolidated systems:

03-WP	\$ 266.15
04 WVG	\$ 391.23
06-WC	<u>\$ 623.75</u>
	\$1,281.13

#### Account 676 Maintenance of Meters - \$3,479

Audit reviewed the 27 journal entries posted during the test year. The expense total is 356% higher than 2018. Both balances were included on Schedule 1C of the filing within the file "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules.pdf", however incorrectly identified as account 673. One entry was selected for specific review:

08/23/2019 Bill 478040 RE Prescott Co., INC. 09- WG 231 Accounts Payable (A/P) \$957.28 was verified to an invoice for the purchase of a circuit board to suit a 2" M2000 2" meter.

Overall, the activity posted to many of the consolidated divisions, and 3% of the division 50 portions were allocated to Dockham, division 18, and Wildwood, division 19 as follows:

LRW	\$3,442.26
Dockham	\$ 18.36
Wildwood	<u>\$ 18.36</u>
	\$3,478.98

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Account 678 Maintenance of Miscellaneous Equipment - \$0

During 2019 there was no activity in account 678. However, in 2018 the account reflected \$6,656. The 2018 activity reflected demolition and clearing of debris from the house at Mt. Roberts well field.

Customer Accounts Expenses

	LRW	Dockham	Wildwood	12/31/2019
902 Meter Reading Expenses	\$ 10,618	\$ 222	\$ 126	\$ <b>10,966</b>
903 Customer Records and Collection Expenses	\$ 29,403	\$ -	\$ -	\$ <b>29,403</b>
904 Uncollectible Accounts	\$ 20,708	\$ 146	\$ -	\$ <b>20,854</b>
905 Miscellaneous Customer Accounts Expenses	\$ 1,161	\$ -	\$ -	\$ <b>1,161</b>
Total Customer Accounts Expenses	\$ 61,890	\$ 368	\$ 126	\$ <b>62,384</b>
LRW pg 34, DS pg 63, WW pg 84	\$ 60,055	\$ 1,286	\$ 1,043	\$ <b>62,384</b>
F-48 minus filing schedules 1	\$ 1,835	\$ (918)	\$ (917)	\$ -

Account 902 Meter Reading Expenses - \$10,966

The 2019 balance is a 6% reduction from the 2018 balance. Audit reviewed the 167 journal entries, noting that monthly entries to the specific divisions were posted. These entries are all labor related. Refer to the Payroll portion of this report.

The division spread of the overall balance as of 2019 is as follows:

LRW	\$10,614.30
Dockham	\$ 223.89
Wildwood	\$ 127.58
	<u>\$10,965.77</u>

Account 903 Customer Records and Collection Expenses - \$29,403

For year-end 2019, the expense total of account 903 represents a 14% decrease from 2018. Audit verified the totals to the following:

	2019	2018	change
903.01 Labor	\$24,602.76	\$28,156.48	\$(3,553.72)
903.02 Postage	<u>\$ 4,800.00</u>	<u>\$ 4,802.76</u>	<u>\$ (2.76)</u>
	\$29,402.76	\$32,959.24	\$(3,556.48)

By division, the 2019 balance is reflected in the general ledger as:

	<u>Account 903.01</u>	<u>Account 903.02</u>	<u>Total 903</u>
LRW	\$23,126.60	\$4,512.00	\$27,638.00
Dockham	\$ 738.08	\$ 144.00	\$ 882.08
Wildwood	<u>\$ 738.08</u>	<u>\$ 144.00</u>	<u>\$ 882.08</u>
	\$24,602.76	\$4,800.00	\$29,402.16

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Refer to the Payroll section of the report for information relating to Labor. Postage costs represent Pitney Bowes' \$400 worth of postage. The monthly amount pre-buys the postage so the Company does not run out of available postage.

Account 904 Uncollectible Accounts - \$20,854

Audit noted that the balance for the test year is a 720% increase over the 2018 year-end. There were 37 entries to the account in 2019, with 34 of those posted on 12/31/2019. Activity in 18 divisions was noted, and included:

Write-offs	\$18,186.71	seven divisions
FB Write-offs	\$ 3,558.81	eleven divisions
Net Adj. Logics and Quickbooks	\$ (426.98)	seventeen divisions
Uncashed refunds	<u>\$ (264.46)</u>	two customer refund checks from 2017
Total	\$20,854.08	

Write-offs are those current customers who have failed to pay their bill. FB Write-offs represent the final bills issued to customers who did not pay that final bill when the property was sold.

Logics is used for the billing. QuickBooks is used for the general ledger and payroll. The systems are not linked, thus resulting in minor adjustments that have to be manually entered into QuickBooks.

By division, the general ledger detail reflects:

	<u>LRW</u>	<u>Dockham</u>	<u>Wildwood</u>	<u>Total</u>
Write-offs	\$18,186.71	\$ -0-	\$-0-	\$18,186.71
FB Write-offs	\$ 3,358.80	\$ 0.01	\$-0-	\$ 3,358.81
Net Adj. Logics, QuickBooks	\$ (573.26)	\$146.28	\$-0-	\$ (426.98)
Uncashed refunds	<u>\$ (264.46)</u>	<u>\$ -0-</u>	<u>\$-0-</u>	<u>\$ (264.46)</u>
Total	\$20,707.79	\$146.29	\$-0-	\$20,854.08

Account 905 Miscellaneous Customer Account Expense - \$1,161

Audit noted the 2019 balance of account 905 is 25% less than the 2018 balance. The 2019 divisional split on the general ledger was noted to be:

LRW	\$1,093.98
Dockham	\$ 33.27
Wildwood	<u>\$ 33.27</u>
	\$1,160.52

Audit selected one entry to review:

12/31/2019 Journal Entry 12312019OC 50- Admin One Call YE Expense-Split-\$1,109.02. The entry was supported with a report from One-call with an expiration date of 10/09/2020 that reflected 6,565 call credits available. The entry was also supported with a running credits available, credits used, credits purchased. The \$1,109.92 represents 7,810 credits purchased at \$0.1426 each. The rolling calculation of available credits calculated the

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prepayment to be \$936.18. That balance was verified to account 162.02. Refer to the Prepaid section of this report.

### Administrative and General Expenses

	LRW	Dockham	Wildwood	12/31/2019
920 Administrative and General Salaries	\$ 253,693	\$ 89	\$ 59	\$ <b>253,841</b>
921 Office Supplies and Other Expenses	\$ 18,160	\$ -	\$ -	\$ <b>18,160</b>
923 Outside Services Employed	\$ 33,782	\$ -	\$ -	\$ <b>33,782</b>
924 Property Insurance	\$ 39,519	\$ -	\$ -	\$ <b>39,519</b>
926 Employee Pension and Benefits	\$ 58,990	\$ -	\$ -	\$ <b>58,990</b>
928 Regulatory Commission Expenses	\$ 42,134	\$ -	\$ 54	\$ <b>42,188</b>
930 Miscellaneous General Expenses	\$ 68,800	\$ 300	\$ 301	\$ <b>69,401</b>
Total Administrative and General Expenses	\$ 515,078	\$ 389	\$ 414	\$ <b>515,881</b>
LRW pg 34, DS pg 63, WW pg 84	\$ 487,453	\$ 14,202	\$ 14,227	\$ <b>515,882</b>
F-48 minus filing sshedules 1	\$ 27,625	\$ (13,813)	\$ (13,813)	\$ (1)

### Account 920 Administrative and General Salaries - \$253,841

Audit noted that the test year balance is 6% higher than 2018. The overall total was verified to the following:

	<u>2019</u>	<u>2018</u>
920.01 Field Staff Other	\$ 177,250.60	\$154,185.64
920.01a Work Order Dist.	\$(106,810.65)	\$(95,600.06)
920.02 Administration	\$ 105,114.41	\$104,175.26
920.03 Officer	<u>\$ 78,287.05</u>	<u>\$ 77,093.92</u>
	\$ 253,841.41	\$239,854.76

Refer to the Payroll section of this report. The general ledger reflects the 2019 total by division as:

	<u>Total 2019</u>	<u>LRW</u>	<u>DS</u>	<u>WW</u>
920.01 Field Staff Other	\$ 177,250.60	\$ 166,615.56	\$ 5,317.52	\$ 5,317.52
920.01a Work Order Dist.	\$(106,810.65)	\$(100,438.14)	\$(3,171.42)	\$(3,201.09)
920.02 Administration	\$ 105,114.41	\$ 98,807.55	\$ 3,153.43	\$ 3,153.43
920.03 Officer	<u>\$ 78,287.05</u>	<u>\$ 73,589.83</u>	<u>\$ 2,348.61</u>	<u>\$ 2,348.61</u>
	\$ 253,841.41	\$ 238,574.80	\$ 7,648.14	\$ 7,618.47

### Account 921 Office Supplies and Other Expenses - \$18,160

Audit noted that there was no balance for 2018. Prior to 2019, the Company booked Office Supplies to account 930.10 which, for 2018, showed a total expense balance of \$15,503.20. The general ledger shows the division totals for 2019 as:

LRW	\$17,080.15
Dockham	\$ 540.17
Wildwood	<u>\$ 540.17</u>
	\$18,160.49

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There were only five entries in the account in 2019. Four were year-end allocations of Admin costs spread to divisions 18 and 19, which net to zero. One year-end adjusting entry in the amount of \$18,160.49 debited account 921 and credited account 930.10, Office/Other Expenses. The amount represents the 97 entries that had been booked to 930.10 during the year. The activity related to 30 individual entities for a variety of items such as internet service, postage meter lease, uniforms, envelopes, miscellaneous office furniture of minimal value, answering services. The average of the activity was \$187.22, with a range from less than \$10 to \$1,023.86, paid to BFM, Inc. for double window envelopes.

Account 923 Outside Services Employed - \$33,782

The 2019 balance of account 923 is 43% lower than 2018. Audit verified the total for each year to the following accounts:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
923.01 Accounting	\$12,421.76	\$15,874.08	\$ (3,452.32)
923.02 Computer Services	\$ 8,787.60	\$10,972.22	\$ (2,184.62)
923.03 Legal	<u>\$12,572.83</u>	<u>\$32,003.81</u>	<u>\$(19,430.98)</u>
	\$33,782.19	\$58,850.11	\$(25,067.92)

By division, the 2019 balances were on the general ledger as:

	<u>2019</u>	<u>LRW</u>	<u>DS</u>	<u>WW</u>
923.01 Accounting	\$12,421.76	\$11,676.46	\$372.65	\$372.65
923.02 Computer Services	\$ 8,787.60	\$ 8,260.34	\$263.63	\$263.63
923.03 Legal	<u>\$12,572.83</u>	<u>\$12,286.23</u>	<u>\$143.30</u>	<u>\$143.30</u>
	\$33,782.19	\$32,223.03	\$779.58	\$779.58

Account 923.01 reflected activity during the test year relating to invoices from Leone, McDonnell & Roberts for financial statement preparation and federal and state tax returns, which total \$9,395.93. Invoices from Stephen P. St. Cyr & Associates reflected activity relating to year-end, annual report, plant retirement, and miscellaneous. Those invoices total \$3,025.83. Three invoices were selected for review:

04/30/2019 \$4,080.00 Leone, McDonnell & Roberts. The invoice, dated 4/30/2019 was for services rendered in connection with the preparation of reviewed financial statements and preparation of Federal and State corporate income tax returns.

10/31/2019 \$874.93 Leone, McDonnell & Roberts for Thomas A Mason 1994 Trust. The invoice was addressed to the Trust, not to Lakes Region Water, as all of the other Leone, McDonnell & Roberts invoices were. Further, the description of the charges say "*balance forward \$862 plus finance charge \$12.93*". This invoice should be considered non-recurring, and should have posted below the line. See **Audit Issue #7**

12/31/2019 \$122.50 Stephen P. St. Cyr & Associates for APIC vs Dividend, CIAC was reviewed. The invoice describes the work performed as "*talking with Tom and Leah regarding the return of additional paid-in-capital vs. dividends, general year-end, and CIAC*". Refer to



the Dividends Declared portion of this report for details regarding the money paid to the sole shareholder.

Account 923.02 reflected the following activity during the test year, all of which posted to division 50-Admin, split to Dockham and Wildwood at year end for \$263.63 each:

Intuit-Payroll	\$ 420.00	Payroll
Intuit QuickBooks online	\$ 780.00	General Ledger
Lakes Region Computer	\$2,520.00	Software and Hardware support as needed
Logics, LLC	\$5,067.60	Billing system

Audit requested copies of the Intuit annual contract, and the Lakes Region Computer if applicable. The Intuit contracts were simply online registrations, thus no actual contract was available. Lakes Region Computer is used for support for both software and hardware as needed. The Company indicated that the Logics contract was reviewed in the previous rate case, and that the current use is not supported with a contract. Refer to the Plant in Service portion of this report.

Account 923.03 included activity such as review of subdivision issues, easements, personnel handbook, etc. Ten entries totaling \$10,206.17 relate to “Timber Trespass”. The reference is to a lawsuit filed against Lakes Region Water several years ago, resulting from a logger who cut trees far outside the location requested by Lakes Region. Suit settled January 2020 and insurance paid the Bank of New Hampshire as Trustee of the Markus Foundation (lot owner). As a result, the \$10,206 should be considered as a non-recurring expense. **See Audit Issue #7**

Account 924 Property Insurance - \$39,519

The 2019 balance represents an increase of 26% over the 2018 figure. Audit verified the reported total to:

924.01 Property Insurance	\$33,585.93	The Rowley Agency
924.02 Workers Compensation	\$ 5,932.59	see the <u>Payroll</u> section for details
	\$39,518.52	

The 2019 general ledger reflects both accounts, by division, as follows:

	<u>LRW</u>	<u>DS</u>	<u>WW</u>	<u>Combined</u>
924.01 Property Insurance	\$31,570.77	\$1,007.58	\$1,007.58	\$33,585.93
924.02 Workers Comp	\$ 5,576.63	\$ 177.98	\$ 177.98	\$ 5,932.59
	\$37,147.40	\$1,185.56	\$1,185.56	\$39,518.52

Audit requested and was provided with the insurance policy cover sheets and premium schedules for the insured periods of 5/15/2018 – 5/15/2019 and 5/15/2019 – 5/15/2020.

- Commercial Property coverage through Allied World Assurance Co. (US) Inc. includes blanket building coverage, blanket BPP, equipment breakdown, earthquake endorsement, with special coverage for new locations, direct damage for utility service income and expense, pollution, SCADA upgrades, contract penalties, contamination, property in transit, unintentional errors.
- Equipment Floater, through Allied World Assurance Co., Inc., covers equipment such as generators, mini-excavator, Pow R Mole, and leased/borrowed/rented equipment from

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others, up to the total insured value. Deductibles for unscheduled equipment \$500, scheduled equipment \$1,000.

- Commercial Crime, also through Allied World Assurance Co., Inc. has a deductible of \$1,000 with coverage up to \$100,000.
- Commercial General Liability is part of the Allied World Assurance policy, and reflects limits ranging from \$10,000 to \$3,000,000. Included on the cover sheet are the Assurance company's duty to defend; broad definition of insured; fellow employee; per location aggregate; and blanket additional insured endorsement. The additional endorsements include: water and wastewater testing errors and omissions; failure to supply; waterborne asbestos; contract liability-railroads; and pollution.
- The commercial automobile policy, through Allied World Assurance lists the five pickup trucks and three trailers for the policy ending 2019, and six pickup trucks and three trailers for the policy ending 2020. The policy also includes the lenders who have an interest in the vehicles.
- Public Officials and Management Liability coverage included cost of defense inside/outside the limit of liability for privacy; employment practices includes third party discrimination; duty to defend, no intentional acts, assault and battery, or BI exclusion; privacy retroactive date to 5/15/2015
- Workers' Compensation policy covering waterworks operation, drivers, and clerical excludes Tom Mason as President. The '18 – '19 premium was \$4,803. For '19 – '20, the premium was \$4,906.
- The Umbrella policy reflects coverage limits of \$2,000,000 for the underlying insurance:
  - Auto liability
  - Hired and non-owned auto
  - Public officials and management liability
  - Employer's liability
  - Employment practices
  - Employee benefit plans
  - General liability
- For the 2019 – 2020 period, the insurance also include cyber, data risk, and media liability. For the 2018-2019 policy, cyber was included within the Public Officials and Management Liability portion of the policy.

The premium summary reflected:

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<u>Policy Type</u>	<u>'18-19</u>	<u>'19-20</u>
Cyber	\$ -	\$ 1,713.00
Cyber 3% tax		\$ 51.39
Property	\$ 9,193.00	\$ 9,635.00
Policy Fee	\$ 100.00	\$ 100.00
Broker Fee	\$ 250.00	\$ 1,100.00
3% NH Sales Tax	\$ 275.79	\$ 289.05
Commercial Crime	\$ 250.00	\$ 250.00
3% NH Sales Tax	\$ 7.50	\$ 7.50
Commercial General Liability	\$ 3,338.00	\$ 3,338.00
3% NH Sales Tax	\$ 100.14	\$ 100.14
Public Officials/Mgmt Liability	\$ 2,409.00	\$ 1,409.00
3% NH Sales Tax	\$ 72.27	\$ 42.27
Commercial Automobile	\$ 5,080.00	\$ 5,259.00
3% surplus lines tax	\$ 142.40	\$ 157.77
Workers' Compensation	\$ 4,803.00	\$ 4,906.00
Umbrella	\$ 1,469.00	\$ 1,595.00
3% NH Sales Tax	\$ 44.07	\$ 47.85
Service Fee	\$ 5,000.00	\$ 4,000.00
<b>Total Premium</b>	<b>\$32,534.17</b>	<b>\$34,000.97</b>

According to the NH Insurance Department, a 3% surplus lines tax is applicable to premiums and broker fees issued by a number of insurance providers, of which Allied Assurance is one. The tax is required per RSA 405:29. During both policy years, the Company financed the premium through AFCO. The Company did not post the entire premium to the Prepaid 162.01 account, because the policies for both years were financed. Rather, the premiums, less a down-payment, less interest, were divided by 12 for monthly postings to the 924.01 account, and offset to 162.01. 162.01 was then cleared to the accounts payable 231 account. The financed monthly payments, however, are spread over nine months rather than twelve. Interest associated with the financings was booked to account 427 as discussed in the Interest section of this report.

Detailed calculations of each monthly spread and monthly repayment figures were provided. A verification during the test year was done to ensure that the prepaid account at 4/15/2019 was zero. That date is when the final monthly entries for the 2018/2019 policy were posted, clearing the account for posting of the subsequent 2019/2020 policy entries.

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	5/15/2018 - <u>5/15/2019</u>	5/15/2019 - <u>5/15/2020</u>
<u>AFCO</u>		
Premium	\$ 27,163.34	\$ 29,094.97
Down-payment	\$ (5,433.00)	\$ (5,819.00)
Financed	\$ 21,730.34	\$ 23,275.97
Interest	\$ 676.60	\$ 745.93
Total Payments	\$ 22,406.94	\$ 24,021.90
Nine installments	\$ 2,489.66	\$ 2,669.10

Premium to expense  
over 12 months \$ 2,263.61 \$ 2,424.58

Additional entries related to property insurance were noted for structures at Dockham Shores, \$155.53 and an adjusting entry to clear the 162.01 Prepaid account, \$4,979.32 were noted within the 924.01 expense activity for 2019. Based on the activity in both the 162.01 and 924.01, it appears that the \$4,979.32 clearing expense was the result of understating expenses during 2018. The Company anticipates paying the premium in full, up front going forward. In that case, the entire premium will be debited to the Prepaid account, with twelve monthly credits offset to the 924.01 account.

Account 926 Employee Pension and Benefits \$58,990

The 2019 balance is 7% higher than 2018. Activity related to payments to United Health Care Insurance, Anthem Blue Cross, and Northeast Delta Dental.

Totals by division and by account were reflected on the general ledger to be:

	<u>LRW</u>	<u>DS</u>	<u>WW</u>	<u>Combined</u>
926 Employee Pension/Benefits	\$44,482.72	\$1,419.66	\$1,419.66	\$47,322.04
926.02 Pension	\$ 9,116.19	\$ 290.94	\$ 290.94	\$ 9,698.07
926.03 HRA Expense	\$ 1,851.98	\$ 59.11	\$ 59.11	\$ 1,970.20
	\$55,450.89	\$1,769.71	\$1,769.71	\$58,990.31

Refer to the Payroll section of this report for additional details.

Account 928 Regulatory Commission Expenses - \$42,188

Audit verified the reported total of account 928 from the NH PUC Annual Report to the Company's general ledger account 928 without exception. The balance during the test year is 43% less than the 2018. The reflection by division in the general ledger, for 2019 is:

LRW	\$41,784.60
Dockham	\$ 174.45
Wildwood	\$ 228.45
	\$42,187.50

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Audit reviewed the NH PUC website and reviewed the Assessment details for the state fiscal years ending 6/30/2019 and 6/30/2020. Specifically, to determine the calendar year 2019 expense information, the following was noted:

Quarter 3 FY 2019	\$1,531	
Wildwood Qtr 3 FY 2019	\$ 27	
Quarter 4 FY 2019	\$1,531	
Wildwood Qtr 3 FY 2019	\$ 27	
Quarter 1 FY 2020	\$1,187	
Quarter 2 FY 2020	<u>\$1,566</u>	
Total Calendar year 2019	\$5,869	The entries were noted in the account activity with no exception.

Audit verified that debits relating to two specific deferred assets, summing to \$9,980 and \$26,339 were credited to account 186. Refer to the Miscellaneous Deferred Debits section of this report for additional details. See Proforma #7 on page 4 of 107 and page 36 of 107 in the pdf "20-187\_2021-01-15\_lwrc\_perm\_rate\_schedules" within the filing.

Account 930 Miscellaneous General Expenses - \$69,401

The 2019 balance is 9% lower than the 2018 figure. Audit reviewed the twelve accounts that comprise the overall total, and compared each to the respective 2018 balances:

	12/31/2019	12/31/2018	Change
930.01 Bank Service Charge	\$ 1,140.69	\$ 1,125.12	\$ 15.57
930.02 Building Maintenance	\$ 21,941.89	\$ 24,375.12	\$ (2,433.23)
930.03 Dig Safe Notifications	\$ 227.00	\$ 358.00	\$ (131.00)
930.04 Heat/Electric-Admin Building	\$ 1,861.29	\$ 2,521.72	\$ (660.43)
930.05 Membership/Dues	\$ 2,140.00	\$ 2,667.00	\$ (527.00)
930.06 Operating Permits	\$ 5,700.00	\$ 5,400.00	\$ 300.00
930.07 Training/Workshops	\$ 4,549.63	\$ 2,374.00	\$ 2,175.63
930.08 Shop Supplies/Small Tools	\$ 18,695.42	\$ 10,871.23	\$ 7,824.19
930.09 Telephone	\$ 7,562.34	\$ 6,992.32	\$ 570.02
930.10 Office/Other Expense	\$ -	\$ 15,503.20	\$ (15,503.20)
930.11 Reimbursements	\$ 1,354.69	\$ 925.13	\$ 429.56
930.12 Other Computer Services	\$ 4,227.55	\$ 3,434.13	\$ 793.42
	<u>\$ 69,400.50</u>	<u>\$ 76,546.97</u>	<u>\$ (7,146.47)</u>

Account 930.01 Bank Fees activity for 2019 showed recurring monthly service charges of \$75 and various returned check or rejected ACH fees. The activity was similar to the 2018 activity. Specific testing was not done. The divisional general ledger details for 2019 show:

LRW	\$1,092.72
Dockham	\$ 23.51
Wildwood	<u>\$ 24.46</u>
	\$1,140.69

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Account 930.02 Building Maintenance for the test year reflected a reduction from the 2018 balance of 10%. Activity within the account reflects consisted of monthly payments to Waste Management totaling \$8,356.37, monthly payments to Winnepesaukee Cleaning totaling \$1,690.00, seven payments to Blue Ridge Landscaping, Inc. for lawn maintenance totaling \$4,085.00, and driveway ledge pack for the office, paid to the Bruce Robinson Company amounting to \$6,008.46. The driveway is not shared with LRW Water Service, Inc. There were several other entries with minor dollar amounts for items such as septic, thermostat, and plowing at Hidden Valley. The ledge pack should be considered a non-recurring expense. See **Audit Issue #7**

The divisional general ledger details for 2019 show:

	<u>Per GL</u>	<u>Recommended</u>
LRW	\$20,677.49 less \$6,008.46 non-recurring =	\$14,669.03
Dockham	\$ 632.20	\$ 632.20
Wildwood	<u>\$ 632.20</u>	<u>\$ 632.20</u>
	\$21,941.89	\$15,933.43

The snowplowing was offset to the Prepaid account 162.

Account 930.03, Dig Safe Notifications reflected four specific entries related to Dig Safe Notifications. None was tested. The activity for the year summed to \$227.00. The divisional general ledger details for 2019 show:

LRW	\$213.38
Dockham	\$ 6.81
Wildwood	<u>\$ 6.81</u>
	\$227.00

Account 930.04 Heat/Electric Admin Building reflects a decrease of 27% from the 2018 year-end balance. 2019 activity showed three entries for a total of 476.6 gallons of propane that sum to \$765.50 and six payments to NHEC for electricity at the Route 109 office. Those payments sum to \$1,095.79 and were posted for the months of July through December, 2019.

The divisional general ledger details for 2019 show:

LRW	\$1,762.07
Dockham	\$ 49.61
Wildwood	<u>\$ 49.61</u>
	\$1,861.29

Account 930.05 Membership/Dues showed:

Balmoral Improvement Association	\$500.00	same 2018
State of New Hampshire	\$107.00	similar 2018 \$102
New England Water Association	\$124.00	similar 2018 \$120
American Water Works	\$309.00	similar 2018 \$300
Hidden Valley Property Owners Association	\$750.00	same 2018
New Hampshire Water Works	\$105.00	same 2018
Granite State Rural Water Association	<u>\$245.00</u>	similar 2018 \$220
	\$2,140.00	

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The divisional general ledger details for 2019 show:

LRW	\$2,086.60
Dockham	\$ 26.70
Wildwood	<u>\$ 26.70</u>
	\$2,140.00

The activity in the prior year included medical certificates (for two employees) associated with the Department of Transportation requirements for drivers licensed to operate heavier trucks, although not commercial drivers. That expense was not included in the 2019 detail in any expense account. Audit requested clarification of the timeframe for which the medical card is valid, and was told that they are valid for two years.

The Company's memberships in the various associations are primarily for educational purposes. It is unclear if any of the associations have lobbying functions.

The Balmoral Improvement Association and the Hidden Valley Property Owners Association are property owners associations to which Lakes Region, as a property owner for pump houses, must be a member.

Account 930.06 Operating Permits reflected nineteen divisions' \$300 annual NH DES permit to operate. Refer to the Prepaid section of this report for account 162. The divisional general ledger details for 2019 show:

LRW	\$5,100.00
Dockham	\$ 300.00
Wildwood	<u>\$ 300.00</u>
	\$5,700.00

Account 930.07 Training/Workshops \$4,549.63 was reviewed in detail. Classes operated by NH DES, NH Water Works Association, Granite State Rural Water Association, and NARUC were included. The 2019 balance reflects an increase over the \$2,374 figure at year-end 2018. That increase was primarily due to the attendance of one employee at the NARUC rate school.

Audit also reviewed an entry identified as "Granite State Glass" \$420.00 that posted 7/23/19. The invoice is actually from Granite State Rural Water Association for a class, and was a mis-typed identification on the general ledger.

The divisional general ledger details for 2019 show:

LRW	\$4,276.65
Dockham	\$ 136.49
Wildwood	<u>\$ 136.49</u>
	\$4,549.63

Account 930.08 Shop Supplies/Small Tools Audit reviewed the 98 journal entries in the account. The activity is similar to the 75 entries noted in 2018. While the balance for the test year reflected an increase of \$7,824.19, none of the 2019 entries appeared to be items that should have been

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capitalized. Activity reflected purchases from F.W. Webb Company, EJP, Aubuchon Hardware, Irving, among others, for items related to hand-held tools, shop fuel, etc. One small entry, posted 6/14/2019 was supported with an invoice from Grainger \$402.22 for the purchase of three Fluke split digital clamp meters.

The divisional general ledger details for 2019 show:

LRW	\$17,626.88
Dockham	\$ 534.27
Wildwood	<u>\$ 534.27</u>
	\$18,695.42

Account 930.09 Telephone for 2019 reflected twelve entries for Spectrum totaling \$1,921.65 and thirteen entries for \$5,640.69 relating to Verizon Wireless. One of the Verizon entries was a correction.

The divisional general ledger details for 2019 show:

LRW	\$7,108.60
Dockham	\$ 226.87
Wildwood	<u>\$ 226.87</u>
	\$7,562.34

Account 930.10 Office/Other Expenses As discussed within the Account 921 section above, Office/Other Expenses had been booked to account 930.10 during the test year and prior years. At year-end, all activity for 2019 was reclassified out of account 930.10 into account 921. The divisional general ledger details for 2019 show zero balances.

Account 930.11 Reimbursements - \$1,354.69 is 46% higher than the 2018 ending balance. All activity posted to division 50-Admin, with reallocation entries at year-end to divisions 18 and 19. The activity for the test year showed total mileage reimbursements for:

34 entries	\$ 632.97	H. Brown
07 entries	\$ 119.89	A. Benes
05 entries	\$ 103.07	K. Lamson
07 entries	\$ 498.76	L. Valladares
02 entries	\$ (81.28)	reallocation
02 entries	<u>\$ 81.28</u>	reallocation
	\$1,354.69	

The divisional general ledger details for 2019 show:

LRW	\$1,273.41
Dockham	\$ 40.64
Wildwood	<u>\$ 40.64</u>
	\$1,354.69

Account 930.12 Other Computer Services - \$4,227.55 activity for the year reflected activity for divisions 50-Admin, 18-DS, and 19-WW:



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50-Admin	\$3,973.89
18-DS	\$ 126.83
19-WW	<u>\$ 126.83</u>
	\$4,227.55

The activity showed payments for AMR support, Adobe Acropro subscriptions, Office 365, Labtech, and Webroot. The AMR is prepaid and was offset to account 162. Refer to the Prepaid section of this report.

**PAYROLL**

The filing, Schedule 1B shows a total payroll of \$385,354 for the test year of 2019. The payroll summary by employee report shows a total payroll of \$383,999.02 plus \$1,354.69 of mileage to total \$385,353.71.

Audit noted that the payroll amount of \$385,354 is overstated in the filing by the mileage amount of \$1,354.69. The mileage is booked to account 930.11 Reimbursements as noted in the Expense section above. Due to it being booked and included in the O&M total, including it in the total payroll would be double counting the amount. The filing should be adjusted to reflect the total gross pay of \$383,999.02. **Audit Issue #9**

The general ledger reflects a total of \$385,254.82 in the following general ledger accounts:

903.01 Records and Collections Expense: Labor	\$ 24,602.76
920.01 Admin & General Salaries: Field Staff Other	\$177,250.60
920.02 Admin & General Salaries: Administration	\$105,114.41
920.03 Admin & General Salaries: Officer	<u>\$ 78,287.05</u>
	\$385,254.82

The payroll summary reflects a total of \$383,999.02 booked to the following GL accounts:

903.01 Records and Collections Expense: Labor	\$ 24,051.51
920.01 Admin & General Salaries: Field Staff Other	\$176,596.79
920.02 Admin & General Salaries: Administration	\$105,107.86
920.03 Admin & General Salaries: Officer	<u>\$ 78,242.86</u>
	\$383,999.02

The different between the general ledger amount of \$385,254.82 and the payroll summary of \$383,999.02 is \$1,255.80. This difference in totals is due to the 2018 and 2019 end of year accruals. The first activity of the year was a reversal of the 2018 end of year accrual and the final activity of the year was the booking of the 2019 end of year accrual. The difference in these accrual amounts results in the payroll total and the general ledger amount differing.

Below is the accrual difference per the payroll general ledger accounts.

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	<u>Payroll Summary</u>	<u>General Ledger</u>	<u>Difference</u>
903.01	\$ 24,051.51	\$ 24,602.76	\$ (551.25)
920.01	\$176,596.79	\$177,250.60	\$ (653.81)
920.02	\$105,107.86	\$105,114.41	\$ (6.55)
920.03	\$ 78,242.86	\$ 78,287.05	\$ (44.19)
			<u>\$ (1,255.80)</u>

Audit reviewed the payroll accruals and verified the difference amount without exception.

Account 920 also included a credit balance account 920.01a, Work Order Distribution. Audit verified the account 920 total of \$253,841.41 to the Company's annual report, filing and the following general ledger accounts:

920.01 Field Staff Other	\$ 177,250.60
920.01a Work Order Dist.	\$(106,810.65)
920.02 Administration	\$ 105,114.41
920.03 Officer	<u>\$ 78,287.05</u>
	\$ 253,841.41

The general ledger reflects the 2019 total by division as:

	<u>Total 2019</u>	<u>LRW</u>	<u>DS</u>	<u>WW</u>
920.01 Field Staff Other	\$ 177,250.60	\$ 166,615.56	\$ 5,317.52	\$ 5,317.52
920.01a Work Order Dist.	\$(106,810.65)	\$(100,438.14)	\$(3,171.42)	\$(3,201.09)
920.02 Administration	\$ 105,114.41	\$ 98,807.55	\$ 3,153.43	\$ 3,153.43
920.03 Officer	<u>\$ 78,287.05</u>	<u>\$ 73,589.83</u>	<u>\$ 2,348.61</u>	<u>\$ 2,348.61</u>
	\$ 253,841.41	\$ 238,574.80	\$ 7,648.14	\$ 7,618.47

The total allocated to Dockham Shores and Wildwood payroll expense is allocated based on the allocation factor of 3% of the expenses in 50-Admin class. Audit recalculated the Dockham Shores and Wildwood payroll expense without exception.

During the test year, eleven employees were employed, at one point, by LRWC. Two of the eleven employees are salaried employees with the remaining nine being hourly employees. All hourly employees submit timesheets, which are approved by their supervisors. The Utility Finance Manager approved the payroll register before it is processed. None of the employees are part of a union.

LRWC uses QuickBooks for their payroll processing system. Payroll is processed on a weekly basis and posted to accounts 903.01, 920.01, 920.02 and 920.03. On a monthly basis, payroll associated with a work order is transferred from the 920 accounts and posted to the appropriate plant account. Additional information regarding the capitalized payroll can be found in the Plant section above.

The Company provided the payroll summary for the period of January 1, 2019 through December 31, 2019. The summary provided a breakdown of gross pay, deductions from gross pay, mileage reimbursements, taxes withheld, deductions from net pay and total net pay.

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The final pay period of the year was December 16, 2019 through December 22, 2019 and paid on December 27, 2019. Audit reviewed timesheets for the final pay period of the year for the six hourly employees that were paid and verified the detail to the payroll summary for the pay period. Audit also verified the gross pay for the six hourly employees and the two salary employees for the final pay period to the general ledger account. No exception was noted with the review of the final pay period time sheets, payroll register, and general ledger journal entries.

Payroll Accrual

A total of \$(7,036) was booked to the accrued payroll account, 241, for the 2019 end of year payroll. The accrual was for the period of December 23, 2019 through December 29, 2019 and ultimately paid on January 3, 2020. The following is a representation of the payroll accrual journal entry:

	<u>Debit</u>	<u>Credit</u>
903.01	\$ 551.25	
920.01	\$2,870.81	
920.02	\$1,941.90	
920.03	\$1,517.15	
241		\$6,881.11
926.02	\$ 154.44	
241		<u>\$ 154.44</u>
	<u>\$7,035.55</u>	<u>\$7,035.55</u>

Audit received a copy of the payroll summary and timesheets for the December 23-29, 2019 payroll. Audit verified the timesheets to the payroll summary and to the general ledger accounts noted above without exception.

The accrual was reversed on January 1, 2020.

Accrued Vacation

LRWC noted they do not accrue a dollar value for unused vacation time at the end of the year. The Company does allow each employee to roll over a maximum of 120 hours of unused vacation time into the next year. Due to having a small number of employees and the minimal hours to be rolled into the upcoming year, LRWC noted it was not advantageous for the Company to perform a vacation accrual.

Accrued Payroll Taxes

Accrued Payroll Taxes, Account 236, showed a general ledger account balance of \$(423).

236.01b Accrued Payroll Taxes: 940 PR Taxes	\$(421.31)
236.01c Accrued Payroll Taxes: Accr NH UC	<u>\$( 2.31)</u>
	\$(423.62)

Activity in the 236.01b account included a \$336 beginning balance, weekly payroll entries for federal unemployment taxes, payments to the IRS and an ending balance of \$421.31.

Activity in the 236.01c account shows a \$(3.91) beginning balance, weekly payroll entries for NH state unemployment taxes, payments to the State of NH and an ending balance of \$2.31.

Employee Pension and Benefits

A total of \$58,990 was booked to the general ledger for employee pension and benefits. Audit was able to verify the filing and annual report to the following general ledger accounts:

926 Employee Pension & Benefits	\$47,322.04
926.02 Employee Pension & Benefits: Pension	\$ 9,698.07
926.03 Employee Pension & Benefits: HRA	<u>\$ 1,970.20</u>
	\$58,990.31

The totals by division, as reflected on the general ledger, can be found above in the Expense section.

Activity in the 926 Employee Pension & Benefits account contained monthly health care payments to Anthem Blue Cross, Northeast Delta Dental and United Health Care Insurance.

Account 926.02 Employee Pension & Benefits: Pension contains activity for the employer match contribution to the IRA. Docket DW 15-209 approved a Company offered IRA through Edward Jones with a 3% match.

During the final pay period of the year, six out of eight employees participated in the Company's IRA plan. Audit reviewed the payroll summary for the final pay period and verified the employer contribution to the general ledger account 926.02 without exception.

Account 926.03 Employee Pension & Benefits: HRA shows activity for the newly implemented Health Reimbursement Account. The Company began offering this benefit to its employees on July 1, 2019. This benefit offers up to \$1,500 to cover out of pocket expenses during the plan year which runs July 1 through June 30. This is a reimbursement benefit in which the employee is reimbursed for their out of pocket expenses.

The Company provided Audit with the HRA expense detail, the HRA plan and a copy of the reimbursement form. The expense detail shows payment for three claims totaling \$1,970.20. When providing the expense detail, the Company noted that one claim was dated 12/3/2019 and should have been a 1/3/2020 expense. This expense was for the amount of \$920.20. An adjustment to the account should be made to reduce the total by \$920.20 resulting in a new total of \$1,050. The reduced expense total would also reduce the 3% allocation about to Dockham Shores and Wildwood as noted below:

**Audit Issue #10**

<u>Total</u>	<u>LRW</u>	<u>Dockham</u>	<u>Wildwood</u>
\$1,050.00	\$987.00	\$31.50	\$31.50

**Taxes Other Than Income**

Audit verified the \$99,522 balance in general ledger account 408, Taxes Other Than Income, to the 2019 annual report and filing schedule 1 to the general ledger.

408.11 Property Tax-Local	\$49,036
408.12 Payroll Taxes	\$28,149
408.12a PR Taxes WO Dist.	(\$4,939)
408.13 State Utility Taxes	<u>\$27,276</u>
Total	\$99,522

A reflection of the divisional allocation is as follows:

	<u>LRW</u>	<u>Wildwood</u>	<u>Dockham</u>	<u>Total</u>
408.11	\$46,569	\$902.77	\$1,564.72	\$49,036.49
408.12	\$26,459.77	\$844.46	\$844.46	\$28,148.69
408.12a	\$(4,239.03)	\$(427.10)	\$(272.93)	\$(4,939.06)
408.13	<u>\$26,174.56</u>	<u>\$340.78</u>	<u>\$760.81</u>	<u>\$27,276.15</u>
Total	\$94,964	\$1,661	\$2,897	\$99,522

The 408.11 Property Tax-Local expense account represents the municipal property tax expense. See Property Tax Section for more details.

Account 408.12 Payroll Taxes contains all of the activity for the employer's portion of the Federal Unemployment taxes, Medicare, State Unemployment, and Social Security taxes.

Audit reviewed the final pay period payroll summary employer taxes amount in detail and was able to tie it to the general ledger activity without exception.

Audit also reviewed the Company's W-3, Federal Unemployment Tax annual return, the quarterly Federal Tax Returns, and the State Unemployment quarterly returns.

The payroll summary for the year shows the payroll tax total as \$28,148.80. The 2019 payroll summary provided a breakdown of the payroll tax total by the different tax types. Audit was able to verify the \$421.31 FUTA tax noted on the summary to the annual FUTA tax return without issue.

The four quarterly state unemployment tax returns total \$464.85. The payroll summary shows a total of \$464.97. No exception is noted as the difference is immaterial.

The payroll summary shows a total of social security taxes of \$22,095.12 and medicare taxes of \$5,167.40. Audit was able to tie these amounts to the W-3 without exception.

Account 408.12a Payroll Taxes Work Order Distribution contains activity to reclassify payroll taxes that are tied to payroll that was associated with a work order. For additional information on the capitalized payroll taxes, please see the Plant section above.

The 408.13 State Utility Tax expense account represents the state utility tax paid to the NH Department of Revenue Administration. See Property Tax Section below for more details.

### Property Taxes

	<u>Per Tax Bills</u>	<u>GL</u>	<u>Difference</u>
2018 2 <sup>nd</sup> Half	\$13,275		
2019 First Half Full	\$23,422		
2019 2 <sup>nd</sup> Half	<u>\$12,291</u>		
Total Municipal Taxes	\$48,988	\$49,036 per account	<b>408.11</b> \$48
2019 State Utility Taxes	<u>\$27,711</u>	<u>\$27,276</u> per account	<b>408.13</b> <u>(\$435)</u>
Total Property Taxes	\$76,699	\$76,312	(\$387)

Audit reviewed the 2019 property tax expense by reviewing the 2019 DP-255 State Utility tax bill, 2018 second issuance municipal tax bills, 2019 first issuance municipal tax bills, and half 2019 second issuance municipal tax bills. Audit calculated the property tax expense to be \$76,699 while the Company booked \$76,312. The reason for the (\$387) credit net difference is due to timing of when the property tax expense is booked and how the State Utility tax was trued up based on the difference between the 2018 estimated and 2019 actual state property tax expense.

Audit calculated the municipal property tax expense to be \$48,988 while the Company calculated it to be \$49,036. The reason for the \$48 immaterial difference is due to timing when the municipal property tax expenses are booked. The reason for the (\$435) credit difference on the state utility tax is the Company booked \$27,276 to the 408.12 account and the actual 2019 DP-255 State Utility Tax was \$27,711 or \$6,928 prepaid quarterly. The 2018 DP-255 State Utility tax was \$25,971 or \$6,492 prepaid per quarter during the 2018. The (\$435) credit is the difference between the estimated 2018 prepaid property tax expense and the actual 2019 property tax expense \$6,928-6,492=(\$435).

The Company indicated there were no property tax abatements during the test year.

### Accrued Taxes

Audit verified the \$25,418 accrued taxes reflected on the 2019 annual report and filing schedule 2 to the following general ledger accounts:

236.01 Accrued Payroll Taxes	\$424
236.02 Accrued Federal Income Taxes	\$25,811
236.03 Accrued NHBPT	<u>(\$817)</u>
Total	\$25,418

The 236.01 Accrued Payroll Taxes account is reviewed in Payroll section of this report.

The 236.02 Accrued Federal Taxes started the beginning of 2019 with a (\$13,904) credit balance and allocated \$39,715 in federal income tax on December 31, 2019. After the allocation there was a \$25,811 test year ending balance in the account. Audit verified the taxes were charged correctly to the 409.10 Federal Income Tax account.

## Attachment E

The 236.03 Accrued NHBPT started the beginning of 2019 with a (\$9,588) credit balance and allocated \$8,771 in state income tax expense on December 31, 2019. After the allocation there was a (\$817) test year ending balance in the account. Audit verified the taxes were charged correctly to the 409.11 State Business Taxes account.

### **Federal and State Income Taxes**

Audit verified the federal and state income tax expenses on the filing schedule 1 and the 2019 annual report to the following general ledger accounts:

409.10 Federal Income Taxes	\$39,715
409.11 State Business Taxes	\$8,771
410.10 Deferred Federal Income Tax	\$30,000
411.10 Amortization of EDIT DW 18-056	<u>(\$4,238)</u>
Total	\$74,247

The 409.10 Federal Income Taxes account are the 2019 tax expense booked for 2019. The offsetting credit account # 236.02 Accrued Federal Income Taxes that had a mirror entry. Audit verified the tax worksheets provided by the Company.

The 409.11 State Business Tax account represents the 2019 NH Business Profits Tax and NH Business Enterprise Tax expense during 2019. The offsetting credit account #236.03 Accrued NHBPT had a mirror entry. Audit verified the tax worksheets provided by the Company.

The 410.10 Deferred Federal Income Tax account represents the \$30,000 deferred for federal income taxes during 2019. The offsetting credit account #282.01 Liberalized Depreciation had \$30,000 in activity during the year.

The combined general ledger was verified to the 409- 411 LRWC, Wildwood, or Dockham Shore Estates federal and state income tax expenses. Audit verified the GL total to the breakout listed on filing schedule 1.

<u>LRWC</u>	<u>WW</u>	<u>DS</u>	<u>Combined</u>
\$68,980	\$2,634	\$2,634	\$74,247

The 409.10 Amortization of EDIT DW 18-056 account consisted of an amortization entry in accordance with Commission Order 26,340 that was part of a docket to pass along tax savings to customers from the Tax Cut and Jobs Act passed in December 2017. The offsetting debit entry was booked to account #282.02 DW 18-056 EDIT Reserves.

Audit verified the Accumulated Deferred Income Taxes on the 2019 annual report and Filing Schedule 2 to the following general ledger accounts:

282.01 ADIT-Liberalized Depreciation	\$360,000
282.02 DW 18-056 EDIT Reserves	\$133,517
282.03 DW 18-056 Tax Savings	<u>\$85,414</u>
Total	\$578,931

## Attachment E

The 282.01 ADIT-Liberalized Depreciation account had a 2019 beginning balance of \$330,000 and had \$30,000 in activity during the year that was to record the federal and state tax liability. The 282.01 ADIT-Liberalized Depreciation finished the year with a \$360,000 December 31, 2019 ending balance. The offsetting account to the \$30,000 amount used to record the federal and tax liability is account #410.10 Deferred Federal Income Tax. Audit reviewed the tax worksheets provided by the Company.

The 282.02 DW 18-056 EDIT account began 2019 with a zero account balance. On December 31, 2019 there was a credit entry for (\$4,239) to record 2018 amortization as required in DW 18-056. On December 31, 2019 there was also an entry for \$141,995 to record the excess deferred income taxes reserve in accordance with DW 18-056 Commission Order # 26,340. The Commission Order and docket were to pass along savings to customers based on the Tax Cut and Jobs Act passed in December 2017. The account net of the credit entry had a \$133,517 December 31, 2019 ending balance. The offsetting credit accounts were booked to account #217.02 DW 18-056 Tax Savings that mirrored the debit entries. Audit reviewed the tax worksheets provided by the Company.

The 282.03 Tax Savings account began 2019 with a zero account balance. On December 31, 2019 there was an \$85,414 debit entry to record tax savings for 2018 and 2019 in accordance with DW 18-056 Commission Order # 26,340. The offsetting credit entries were booked to the liability account #217.02 DW 18-056 EDIT and Tax Savings for (\$42,707) and revenue account #474.02 Operating Revenue DW 18-056 Tax Savings for (\$42,707). Audit reviewed the tax worksheets provided by the Company.

#### Review of Federal Income Tax Returns

Audit reviewed the 2019 Lakes Region Water Company federal income tax return detail filed by Leone, McDonnell, and Roberts on July 14, 2020. Audit verified the \$220,050 M-1 Reconciliation of Net Income to the Filing Schedule 1 and 2019 annual report per the books. The tax return indicated the Company was to pay \$38,022 in federal income tax expense. Audit reviewed the tax worksheets that were provided by the Company.

#### Review of State Income Tax Returns

Audit reviewed the 2019 Lakes Region Water Company NH Business Profits and Enterprise Tax return detail filed by Leone, McDonnell, and Roberts on July 14, 2020. The tax return indicated the Company had a credit of (\$4,617) to be applied to the 2020 estimated tax. This was based on \$10,686 total tax owed during the year and \$15,303 in payments and credits paid during the year. The chart below summarizes the \$10,686 in taxes paid during 2019 per the tax basis.



## Attachment E

Dividends Paid	\$30,000
Compensation/Wages	\$393,697
Interest Paid	<u>\$53,835</u>
Taxable Enterprise Value	\$477,532
2019 BET on .0060 rate	\$2,865
Taxable NH Business Profits	\$101,571
2019 NHBPT 7.7% tax rate	\$7,821
Total 2019 NHBET Paid	\$2,865
Total 2019 NHBPT	<u>\$7,821</u>
Total State Taxes paid	\$10,686

**Audit Issue #1****Logics Retirements****Background**

The Company uses the Logics Utility Billing Software program for billing purposes only. In previous years, they also used the Logics Payroll and Financial Management modules.

**Issue**

The December 31, 2019 CPR records reflect:

<u>Account #</u>	<u>Date</u>	<u>Amount</u>
347	December 15, 2015	\$33,562
347	February 24, 2016	<u>\$1,928</u>
Total		\$35,490

The Company indicated they no longer use the Logics HR/Payroll and GL/Financial Management as they now use QuickBooks. Logics is currently used for billing purposes only. The Logics Payroll and Financial functions are for fund accounting, not utility accounting. The Company indicated in September 2018 there should have been a \$5,870 partial retirement of the Logics Payroll and Financial System assets that was not done.

**Recommendation**

The Company should retire the \$5,870 in Logics assets that are no longer being used by debiting the 108 Accumulated Depreciation account for \$5,870 and crediting the 347 Computer Equipment account for the same amount. The Company should make adjustments to the filing schedule reducing the plant in service balances.

**Company Response**

The Company agrees with the recommendation and will make the adjustment to the filing schedule reducing plant in service balances.

**Audit Conclusion**

Audit concurs with the Company response, and also understands that the general ledger will be adjusted along with the filing. It is suggested that when the filing is adjusted, a copy of the journal entry adjusting the general ledger is also provided to the Staff and Audit.

**Audit Issue #2****Accumulated Depreciation****Background**

The Company's Fixed Asset Pro Reports Plant Accounting System shows Accumulated Depreciation of \$(2,575,531). The QuickBooks general ledger Accumulated Depreciation shows account 108 as \$(2,152,270).

**Issue**

The Company provided a 2019 Accumulated Depreciation Fixed Asset Pro Financial Book Report with retirements that indicated the December 31, 2019 balance was \$(2,575,531). This is a \$423,261 difference compared to the \$(2,152,270) amount booked to the GL, filing, and annual report for account 108.

The reason for the variance is because the Fixed Asset Pro system does not allow the retirement of an asset at the original book value. As a result, a manual adjustment to the Fixed Asset Pro System has been proposed to ensure the QuickBooks plant and accumulated depreciation figures, on both systems agree.

**Recommendation**

The Company should perform the adjustment in Fixed Asset Pro so the 108 Accumulated Depreciation account reflects the correct balances going forward.

**Company Response**

The Company agrees with the recommendation and will perform the adjustment to 108 Accumulated Depreciation account to reflect the correct balances going forward.

**Audit Conclusion**

Audit concurs with the Company response and requests that when the journal entry is done, a copy is forwarded to Audit.

**Audit Issue #3****Half Year Convention Depreciation Expense****Background**

The Company on the Fixed Asset Pro Reports Plant Accounting System has not been using the half year convention for assets retired during the 2019 test year.

**Issue**

<u>LRWC</u>	<u>WW</u>	<u>DS</u>	<u>Total</u>
\$179,692	\$4,303	\$16,875	\$200,869

The Company booked \$200,869 to the 403 Depreciation Expense during the 2019 test year. The Company indicated to Audit Staff that during 2019, and other years, they did not use the correct depreciation rate as the half year convention was not performed.

The Company indicated the correct half year convention rates were applied for Dockham Shores Estates as they use the correct depreciation rates in the Fixed Asset Pro plant asset program by checking the ADSSL option in the software program. The Company has been selecting the SL function in the program that books full year depreciation for the other divisions of the Company to calculate the depreciation expense.

The Company will need to review the Fixed Asset Pro program to verify the half year convention uses the ADSSL function and full year depreciation uses the SL function. The Company is unable to quantify the adjustment needed but indicated the Depreciation Expense is vastly understated over prior years.

**Recommendation**

The Company during 2021 should perform an adjusting entry so the 403 Depreciation Expense account reflects the correct amount using the half year convention for additions and retirements going forward. The Company should use the depreciation rates approved by the Commission. The Company should work with Water Staff to determine the correct expense amount and make any adjustments to filing schedules as needed to reflect the correct depreciation expense.

**Company Response**

The Company agrees with the recommendation and will calculate the correct half year depreciation expense for the filing.

**Audit Conclusion**

Audit concurs with the Company, and requests that any adjustment to the filing be accompanied with the general ledger journal entry, provided to both the Staff and to Audit.

**Audit Issue #4****Construction Budgets/E22s Not Filed with Commission****Background**

The Company is required to file annual Construction Budgets with the New Hampshire Public Utilities Commission as required under Puc Rule 609.12. An E-22 was filed in 2019 for 2019-2020 projects.

**Issue**

The Company, indicated that since the DW 15-209 rate case, they have only filed one E-22, Report of Proposed Expenditures for Additions, Extensions, and Capital Improvements to Fixed Capital, in 2019 for projects to be done in 2019 and 2020. Based on the Puc Rule 609.12 (j)(2) the Company is able to use construction budgets in place of E-22's, as long as they are filed with the Commission. The Company did not file the construction budgets with the Commission during 2015-2018.

**Recommendation**

The Company going forward must comply with Puc Rule 609.12 and file E-22 or Construction Budgets with the Commission for any amount over \$30,000.

**Company Response**

The Company agrees with the recommendation and will comply with the Puc Rule 609.12 and file an E-22 for any amounts over \$30,000.00

**Audit Conclusion**

Audit concurs with the Company response.

**Audit Issue #5****Retirement of Trailers****Background**

The Company has trailers on the books that should be retired.

**Issue**

Based on a review of the CPR for the 341 Transportation account, and discussion with the Company, the following are no longer in service:

1987 Utility Trailer	\$630
2004 Excavator Trailer	\$3,425
2005 Covered Utility Trailer	<u>\$1,999</u>
Total	\$6,054

**Recommendation**

The Company should perform a retirement journal entry and remove the \$6,054 in 341 Transportation Trailer Equipment from the plant in service general ledger and adjust the filing schedules, as the assets are no longer in service, used or useful.

**Company Response**

The Company agrees with the recommendation and will create a retirement journal entry to remove \$6,054 from the 341 Transportation plant account.

**Audit Conclusion**

Audit concurs with the Company response and requests that a copy of the journal entry be provided to Audit once the transaction is completed.

**Audit Issue #6**  
**No Board of Directors Approval for Shareholder Payment**

**Background**

The general ledger for account 211, Other Paid-in Capital, posted an entry of \$3,000 on 12/10/19 to the shareholder Barbara Mason for the repayment of capital.

After the test year 2019, it was voted during the February 2021 board of directors meeting minutes that beginning on June 19, 2020, payments given to Barbara Mason would increase from the current dividend of \$2,500 per month to \$5,300 per month, resulting in a monthly \$2,800 increase. The Company explained that the first payment, of the \$2,800 voted increase in dividends, posted in an entry of \$3,000 on 12/10/19 to the shareholder Barbara Mason, rather than \$2,800. The subsequent monthly payments were for the current dividend of \$2,500 plus the \$2,800 a month voted increase. The minutes also demonstrate that the money issued to the owner be treated as a return of paid-in capital from the Contributed Capital account, rather than treated as a dividend from the Retained Earnings account.

**Issue**

The Company informed Audit that there is no documentation of board approval for the \$3,000 payment to the shareholder in December 2019.

Additionally, the \$3,000 payment reduced account 211, Other Paid-in Capital rather than Retained Earnings. Audit understands that reflecting payments to owner from the Contributed Capital account should be done only at the time of liquidation of the Company. Audit also understands that the issuance of dividends results in a 1099 tax form issued to the shareholder, while the funding out of the contributed capital does not.

**Audit Recommendation**

Going forward, the Company must be able to provide proof of approval from their board of directors for declared dividends before they are paid.

The Company also must pay dividends out of Retained Earnings, and not reduce the Contributed Capital account.

**Company Comment**

The Company agrees that the board of directors should approve payments to owner before they are paid and should be able to provide such documentation. The Company disagrees with Audit understanding that “reflecting payments to owner from the Contributed Capital account should be done only at the time of liquidation of the Company.” Overtime, the owner has put capital into the Company as other paid in capital and there is no PUC rule or regulation that prevents the owner from taking capital out as a reduction to other paid in capital.

**Audit Conclusion**

Audit appreciates that going forward, all payments to the owner will be supported with board approval.

Audit appreciates the Company’s perspective regarding the money the owner has put into the Company over time, however, the issue is restated as written.

**Audit Issue #7**  
**Non-recurring Expense Items**

**Background**

Audit reviewed the activity within each of the expense accounts.

**Issue**

As documented in detail within the text of this report, the following amounts should be considered as non-recurring expense items:

Account 630 Maint. Supervision and Engineering	\$ 2,335.00
Account 673 Maint. Trans. And Distribution	\$ 1,805.00
Account 923.01 Outside Services-Accounting	\$ 874.93, and should have posted below the line
Account 923.03 Outside Services-Legal	\$10,206.17
Account 930.02 Building Maintenance	<u>\$ 6,008.46</u>
Total	\$21,229.56

Account 427 Interest Expense \$676.60 outside of the test year

**Recommendation**

Audit recommends that the Operations and Maintenance expense accounts above be reduced for filing purposes.

Audit recommends that the \$676.60 relating to 2018 interest should be excluded from the interest total within the filing.

**Company Response**

The Company agrees with the recommendation and respectfully requests the following considerations. With respect to the two entries posted in Account 630 Maint. Supervision and Engineering and entries posted in 930.02 Building Maintenance'

- \$1,2010.00 02/18/2019 Lewis Engineering PLLC, the Company request this amount be capitalized in account 304.02 Structures & Improvements as this was part of finalizing the pumpstation.
- \$1,125.00 04/17/2019 Lewis Engineering PLLC, the Company requests this amount be reclassified to 186.13 Deferred Debt- DW 16-619 DS Step Increase. Lewis Engineering provided a response on 03/26/2019 as part of this docket.
- \$6,008.46 Bruce Robinson Company, the Company requests this amount be capitalized in account 304.05 Structures & Improvements as this was to upgrade the driveway.
- \$10,206.17 Timber Trespass case was a legitimate legal expense, and the Company proposes to defer and amortize over 3 yrs.

**Audit Conclusion**

Audit suggests that the Company discuss with the Department of Energy Regulatory staff the proposals noted in the Response.



**Audit Issue #8**  
**Fuel or Purchased Power for Pumping, Account 623**

**Background**

Audit reviewed the activity for each division within account 623, Fuel or Purchased Power for Pumping for the test year.

**Issue**

Adjustments to the total \$98,200.60 within the Fuel or Purchased Power for Pumping account 623 are summarized below.

- The 1/1/2019 entries represent purchased power for December 2018 so should be considered outside of the test-year.
- The misposting of Premier Pump reduced account 623, but would increase account 633, having no impact on the LRW consolidated systems.
- The misposting of \$339.13 is identified because it involves both the Dockham Shores division and the Wildwood division.
- The misposting of \$200.05 involves LRW (consolidated rates) and Wildwood.

	<u>LRW</u>	<u>DS</u>	<u>WW</u>	<u>Total</u>
	\$90,059.16	\$4,677.70	\$3,463.74	\$98,200.60
1/1/2019	\$ (29.32)			\$ (29.32)
1/1/2019	\$ (691.82)			\$ (691.82)
Premier Pump	\$ (210.47)			\$ (210.47)
Mispost	\$	\$ 339.13	\$ (339.13)	\$ -0-
Mispost	\$ 200.05		\$ (200.05)	\$ -0-
	<u>\$89,327.60</u>	<u>\$5,016.83</u>	<u>\$2,924.56</u>	<u>\$97,268.99</u>

**Recommendation**

For filing purposes, the adjusted total for account 623, by division, should be

LRW	\$89,327.60
DS	\$ 5,016.83
WW	<u>\$ 2,924.56</u>
Total	\$97,268.99

**Company Response**

The Company agrees with the recommendation and for filing purposes will reduce account 623 by \$721.14 as this amount is outside the test year and will reclass \$210.47 to account 633 due to the misposting of Premier Pump invoice.

**Audit Conclusion**

Audit concurs with the Company response.

**Audit Issue #9****Payroll****Background**

Audit reviewed the filing Schedule 1B, payroll summary for the year and the general ledger detail for the payroll expense.

**Issue**

The filing, Schedule 1B shows a total payroll of \$385,354 for the test year of 2019. The payroll summary by employee report shows a total payroll of \$383,999.02 plus \$1,354.69 of mileage to total \$385,353.71.

Audit noted that the payroll amount of \$385,354 is overstated in the filing by the mileage amount of \$1,354.69. The mileage is booked to account 930.11 Reimbursements. Due to it being booked and included in the O&M total, including it in the total payroll would be double counting the amount.

**Recommendation**

Audit recommends the Company adjust the filing to reflect the total gross pay of \$383,999.02.

**Company Response**

The Company agrees with the recommendation and will adjust the filing by \$1,354.69 to reflect the total gross pay of \$383,999.02.

**Audit Conclusion**

Audit concurs with the Company response.

**Audit Issue #10****Health Reimbursement Account****Background**

Beginning July 1, 2019, the Company offered a Health Reimbursement Account to their employees.

**Issue**

The Company provided Audit with the HRA expense detail showing payment for three claims totaling \$1,970.20. When providing the expense detail, the Company noted that one claim was dated 12/3/2019 and should have been a 1/3/2020 expense. This expense was for the amount of \$920.20.

**Recommendation**

An adjustment to the account should be made to reduce the total by \$920.20 resulting in a new total of \$1,050. The reduced expense total would also reduce the 3% allocation about to Dockham Shores and Wildwood as noted below:

<u>Total</u>	<u>LRW</u>	<u>Dockham</u>	<u>Wildwood</u>
\$1,050	\$987	\$31.50	\$31.50

**Company Response**

The Company agrees with the recommendation and will reduce the filing as stated above.

**Audit Conclusion**

Audit concurs with the Company response.