Rebuttal Testimony

Of

MIKE OSTRANDER

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Northern Hills Water and Sewer Company

Proposed General Increase in Sewer and Water Rates

Docket No. 10-0298

September 2, 2010

Table of Contents

WITNESS IDENTIFICATION 1

PURPOSE OF REBUTTAL TESTIMONY 1

REVENUE REQUIREMENT SCHEDULES 3

REVENUE EFFECT OF ADJUSTMENTS 4

INTEREST SYNCHRONIZATION 4

GROSS REVENUE CONVERSION FACTOR 5

UNCONTESTED ADJUSTMENTS 5

ADJUSTMENT TO WORKING CAPITAL 6

ADJUSTMENT TO OTHER RATE BASE COMPONENTS FOR THE COMPANY'S PRO FORMA PLANT ADDITIONS ADJUSTMENT 7

ADJUSTMENT TO DEPRECIATION EXPENSE 17

CONCLUSION 17

SCHEDULES

SCHEDULES 6.1 S and W	STATEMENT OF OPERATING INCOME WITH ADJUSTMENTS
SCHEDULES 6.2 S and W	ADJUSTMENTS TO OPERATING INCOME
SCHEDULES 6.3 S and W	RATE BASE
SCHEDULES 6.4 S and W	ADJUSTMENTS TO RATE BASE
SCHEDULES 6.5 S and W	REVENUE EFFECT OF ADJUSTMENTS
SCHEDULES 6.6 S and W	INTEREST SYNCHRONIZATION ADJUSTMENT
SCHEDULES 6.7 S and W	GROSS REVENUE CONVERSION FACTOR
SCHEDULES 6.8 S and W	ADJUSTMENT TO WORKING CAPITAL
SCHEDULES 6.9 S and W	ADJUSTMENT TO OTHER RATE BASE COMPONENTS FOR THE COMPANY'S PRO FORMA PLANT ADDITIONS ADJUSTMENT
SCHEDULES 6.10 S and W	ADJUSTMENT TO DEPRECIATION EXPENSE

WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. My name is Mike Ostrander. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Have you previously filed testimony in this proceeding?

A. Yes, my direct testimony is ICC Staff Exhibit 1.0.

Purpose of Rebuttal Testimony

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to:

1) Present Staff's adjusted operating statement and rate base for Northern Hills Water and Sewer Company ("Northern Hills" or the "Company");

2) Update Staff's calculation of working capital;

3) Respond to the Company's opposition to my adjustments to reflect the changes in accumulated depreciation, accumulated deferred income taxes, and accumulated amortization of contributions in aid of construction through the date of the Company's pro forma plant additions; and

4) Correct my calculation of test year depreciation expense.

Q. Are you sponsoring any schedules as part of your rebuttal testimony?

A. Yes. I prepared the following schedules for Northern Hills that reflect data as of, or for the test year ending, December 31, 2008:

Revenue Requirement Schedules

Schedules 6.1 S and W	Statement of Operating Income with Adjustments
Schedules 6.2 S and W	Adjustments to Operating Income
Schedules 6.3 S and W	Rate Base
Schedules 6.4 S and W	Adjustments to Rate Base
Schedules 6.5 S and W	Revenue Effect of Adjustments
Schedules 6.6 S and W	Interest Synchronization Adjustment
Schedules 6.7 S and W	Gross Revenue Conversion Factor

Adjustment Schedules

Schedules 6.8 S and W	Working Capital
Schedules 6.9 S and W	Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
Schedules 6.10 S and W	Depreciation Expense

Q. Please explain the S and W suffixes that appear with your schedule numbers.

A. Northern Hills filed for rate increases for sewer and water service. The "S" suffix identifies a schedule that pertains to sewer service and the "W" suffix identifies a schedule that pertains to water service.

<u>Revenue Requirement Schedules</u>

Q. Please describe ICC Staff Exhibit 6.0, Schedules 6.1 S and W, Statement of Operating Income with Adjustments.

A. These schedules are the same as ICC Staff Exhibit 1.0, Schedules 1.1 S and W, described in my direct testimony, except that the schedules begin with the Company's rebuttal positions reflected in Northern Hills Exhibit No. 2.0 and incorporate Staff's rebuttal positions.

Q. Please describe Schedules 6.2 S and W, Adjustments to Operating Income.

A. These schedules identify Staff's adjustments to Operating Income. The source of each adjustment is shown in the heading of each column. Column (k) from page 1 is carried forward to ICC Staff Exhibit 6.0, Schedules 6.1 S and W, column (c).

Q. Please describe Schedules 6.3 S and W, Rate Base.

A. These schedules are the same as ICC Staff Exhibit 1.0, Schedules 1.3 S and W described in my direct testimony, except that the schedules begin

with the Company's rebuttal position reflected in Northern Hills Exhibit No. 2.0 and incorporate Staff's rebuttal position.

Q. Please describe Schedules 6.4 S and W, Adjustments to Rate Base.

A. These schedules identify Staff's adjustments to rate base. The source of each adjustment is shown in the heading of each column. Column (k) is carried forward to ICC Staff Exhibit 6.0, Schedules 6.3 S and W, column (c).

<u>Revenue Effect of Adjustments</u>

Q. Please describe Schedules 6.5 S and W, Revenue Effect of Adjustments.

A. These schedules use the same concept as ICC Staff Exhibit 1.0, Schedules 1.5 S and W. The theory is discussed at page 5 of my direct testimony.

<u>Interest Synchronization</u>

Q. Please describe Schedules 6.6 S and W, Interest Synchronization Adjustment.

A. These schedules use the same concept as ICC Staff Exhibit 1.0, Schedules 1.6 S and W. The theory is discussed at page 6 of my direct testimony.

Gross Revenue Conversion Factor

Q. Please describe Schedules 6.7 S and W, Gross Revenue Conversion Factor.

A. These schedules use the same concept as ICC Staff Exhibit 1.0, Schedules 1.7 S and W. The theory is discussed at page 6 of my direct testimony.

Uncontested Adjustments

Q. Did Northern Hills accept any adjustments from Staff's direct testimony?

A. Yes. The following adjustments were accepted by the Company and are therefore included in the Company's beginning rebuttal position numbers in Staff Schedules 6.1 S and W (Operating Statement) and Schedules 6.3 S and W (Rate Base).

- Schedules 1.8 S and W – Adjustment to Working Capital
- Schedules 1.10 S and W – Adjustment to Plant Acquisition Adjustment
- Schedules 1.11 S and W – Adjustment to Deferred Charges
- Schedules 2.1 S and W – Adjustment to Pro Forma Maintenance and General Expenses
- Schedules 2.2 S and W – Adjustment to Add-On Taxes

- Schedules 2.4 S and W – Adjustment to Correct WSC Allocation Factor

Q. Has Staff accepted any adjustments from the Company's rebuttal testimony?

A. Yes. The Northern Hills Exhibit No. 2.0, Schedule 2.1 W, page 15 and Schedule 2.1 S, page 17 – Pro Forma Plant Additions adjustments were accepted by Staff and are therefore included in the Company's beginning rebuttal position numbers in Staff Schedules 6.1 S and W (Operating Statement) and Schedules 6.3 S and W (Rate Base).

<u>Adjustment to Working Capital</u>

Q. Please describe ICC Staff Exhibit 6.0, Schedules 6.8 S and W, Adjustment to Working Capital.

A. These schedules incorporate Staff's rebuttal adjustments to the Company's proposed test year revenues and expenses as reflected in the Company's rebuttal testimony. These adjustments should be updated to reflect the operating expenses approved by the Commission.

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

Q. Please describe ICC Staff Exhibit 6.0, Schedules 6.9 S and W, Adjustment to Other Rate Base Items for the Company's Pro Forma Plant Additions Adjustment.

A. Schedules 6.9 S and W present my adjustments to reflect the changes in accumulated depreciation, accumulated deferred income taxes ("ADIT"), and accumulated amortization of contributions in aid of construction ("CIAC") through the date of the Company's pro forma plant additions. These adjustments are identical to the adjustments proposed in my direct testimony, ICC Staff Exhibit 1.0, Schedules 1.10 S and W.

Q. Please summarize your understanding of Northern Hill's arguments against the adjustments reflected on Schedules 6.9 S and W.

A. The Company considers Staff's adjustments to be improper and suggests they should be rejected for the following reasons:

1. Violation of the Commission's rules on pro forma adjustments, 83 Ill. Adm. Code 287.40 ("Part 287.40");
2. Violation of the Commission's test year rule, 83 Ill. Adm. Code 287.20 ("Part 287.20");
3. Violation of the matching principle; and
4. Inconsistency with longstanding Commission practice.

I will respond to each of these items in turn.

Q. What is the basis for Northern Hill's argument that Staff's adjustments violate Part 287.40?

A. Northern Hills' witness Georgiev interprets Part 287.40 as serving to mitigate regulatory lag by permitting known and measurable pro forma adjustments to plant investment but not permitting restatement of accumulated depreciation, ADIT nor accumulated amortization of CIAC or any other selective rate base items. This narrow interpretation is clearly not realistic since Section 287.40 allows a utility to propose adjustments to the selected historical test year for all known and measurable changes in plant investment, operating revenues, expenses, and cost of capital where such changes are reasonably certain to occur subsequent to the historical test year within twelve months after the tariffs filing date. Part 287.40 does not restrict, as Ms. Georgiev asserts, the information that the Commission can consider. The Commission should consider whether a utility has proposed a pro forma adjustment for post-test year plant additions in a way that warrants adjustments to accumulated depreciation, ADIT, and accumulated amortization of CIAC as well.

Q. What would be the impact on Northern Hill's rate base if Staff's adjustments are not included in the revenue requirement?

A. The Company, through its pro forma plant additions adjustment, has included the actual plant additions for 2009 and has effectively restated or rolled forward its gross utility plant balance through December 31, 2009. Given this scenario, the Company's investment in rate base would be overstated unless offset by or matched with the known and measurable changes to accumulated depreciation, ADIT, and accumulated amortization of CIAC through December 31, 2009 that occur with the passage of time. Gross utility plant represents the largest component of the Company's rate base. To comprehensively restate gross utility plant without also recognizing its associated components that change due to the passage of time does not represent the investment that existed at December 31, 2009 that was provided by shareholders. Ratepayers have provided the funds to reduce that investment through rates that recover the associated depreciation expense and the federal government has provided the additional funding of reduced income taxes due to the tax related timing differences associated with accelerated depreciation.

Q. What is the basis for Northern Hill's argument that Staff's adjustments violate the matching principle and Part 287.20?

A. The Company asserts that Staff's adjustments violate the related concepts of the matching principle and the test year rule, Part 287.20. The Company defines the matching principle as requiring recognition of costs that are associated with the generation of revenues based on

accrual accounting. The Company views Part 287.20 as preventing a mismatch by requiring revenues and expenses to be stated over the same 12 month period. Staff has no disagreement with the Company's definition of the related concepts of the matching principle and Commission test year rule. The Company posits that its pro forma plant addition adjustment does not change the test year. The test year remains the historical 12 months ended December 31, 2008 with the effect of the Company's pro forma plant adjustment to restate rate base to be more representative of the level of plant investment that will exist during the rate effective period.

Q. What is your response to this argument?

A. The Company's proposed plant investment is not representative of the plant investment that will exist during the rate effective period. The Company incorrectly uses plant investment per Part 287.40 to mean gross utility plant. This fallacy is remedied by referring to plant investment as "net plant investment" or gross utility plant less accumulated depreciation. Only by matching pro forma plant additions with changes to accumulated depreciation can the Commission accurately estimate the change to the Company's "net" plant investment and its related change to the historical test year rate base, and accurately produce a revenue requirement that collects the Company's cost of capital. The amount the Company actually has invested and dedicated to providing service at any point in time can

be determined only by taking account both changes in gross plant **and** corresponding changes in accumulated depreciation. Otherwise, the calculation will not match the costs and revenues that may be expected for the period during which the rates are in place. Therefore, it is the Company's proposal, and not Staff's, that is in violation of the matching principle and the Commission's test year rule, because it does not result in a net plant investment estimate that is reasonably certain to occur. Instead, the Company's proposal will inflate net plant investment and rate base, and it will overstate the Company's cost of capital.

Q. What is the basis for Northern Hill's argument that Staff's adjustments are inconsistent with longstanding Commission practice?

A. The Company opines that Staff's adjustments are inconsistent with the longstanding Commission practice of not approving an accumulated depreciation adjustment on embedded plant and cites recent ComEd and North Shore/Peoples orders.

Q. What is your response to this argument?

A. The Company's assertion is not accurate. A review of various Commission Orders demonstrates that the Commission has reached various conclusions about this issue based on the record in each of those cases. In the following cases, the Commission matched the date for the

accumulated depreciation reserve on embedded plant to coincide with the date of pro forma plant additions:

- In Illinois Gas Docket No. 08-0482, the Commission approved the utility's proposal to reflect an accumulated depreciation amount measured as of the same period as the proposed pro forma plant additions.[1]
- In the AmerenUE Dockets Nos. 02-0798, 03-0008, and 03-0009 (Consolidated), the Commission included post-test year plant additions only to the extent that they exceeded the increases in the accumulated depreciation reserve for that same time period.[2] This limited inclusion effectively reduced the pro forma plant additions by the accumulated depreciation on embedded plant..
- In Inter-State Water Company Docket No. 94-0270, the Commission accepted adjustments to the accumulated depreciation reserve and ADIT on embedded plant through the date of pro forma plant additions stating that the adjustments are of a type which the Commission has consistently made.[3]
- In Inter-State Water Company Docket No. 85-0166, the Commission allowed pro forma plant additions only through the date for which

[1] Docket No. 08-0482, Company Exhibit LAU01, p. 4, lines 79 – 86, Exhibit LAU06, and Exhibit LAU07. Staff did not propose an adjustment to the Company's proposed pro forma adjustment. The Order entered on May 13, 2009 approved the Rate Base which reflected the Company's adjustment. (Order, p. 5.)

[2] Order, October 22, 2003, Docket Nos. 02-0278, 03-00008, and 03-0009 (Cons.), pp. 10-11; Order on Rehearing, May 25, 2004, Docket Nos. 02-0278, 03-00008, and 03-0009 (Cons.), pp. 1 and 7.

accumulated depreciation on embedded plant was reflected in the record.[4]

- In Alton Water Company Docket No. 83-0433, the Commission included the increase in the accumulated depreciation reserve and ADIT that occurred after the test year for the period for which pro forma plant additions were included.[5]

In the following cases, the Commission did not roll forward the accumulated depreciation reserve to coincide with the date for pro forma plant additions:

- In the Order from Commonwealth Edison Docket No. 05-0597 ("ComEd Order"), the Commission accepted an adjustment to include post-test year plant additions and rejected an adjustment to the accumulated depreciation reserve for that same period.[6]
- In Peoples Gas and North Shore Gas Docket Nos. 07-0241 and 07-0242 (Consolidated), the Commission rejected an adjustment to the accumulated depreciation reserve on embedded plant through the date of pro forma plant additions because the Commission found that the facts were not distinguished from those in the ComEd Order.[7]

Q. Do you have any additional comments?

[3] Order, April 19, 1995, Docket No. 94-0270, p. 14.
[4] Order, February 26, 1986, Docket No. 85-0166, p. 5.
[5] Order, May 30, 1984, Docket Nos. 83-0433 and 84-0052 (Cons.), p. 12.
[6] Order, July 26, 2006, Docket No. 05-0597, p. 15.
[7] Order, February 5, 2008, Docket Nos. 07-0241 and 07-0242 (Cons.), pp. 16-17.

A. Yes. Contrary to what the Company argues, Part 287.40 does not bind the Commission to a decision on the appropriate date that accumulated depreciation, ADIT and accumulated amortization on CIAC related to embedded plant at December 31, 2008 should be measured and reflected in the test year rate base. Instead, the Commission should base its decision on the facts in the record presented in each particular case. The Commission has based its conclusion on the accumulated depreciation reserve on the facts and record of each individual case rather than on an over-arching position that is applied across all cases. A review of the rate cases of the current Ameren companies over the last 10 years is instructive:

- Docket No. 00-0802: AmerenCIPS and AmerenUE Electric DST cases included only a very limited pro forma plant adjustment. Since the impact to plant was of a limited nature, no party proposed an adjustment to roll forward accumulated depreciation through the pro forma period. As such, there was no issue regarding accumulated depreciation on embedded plant.
- Docket No. 01-0432: Illinois Power Electric DST case included a very limited pro forma plant adjustment. Since the impact to plant was of a limited nature, IP did not propose an adjustment to roll forward accumulated depreciation through the pro forma period. While the CUB/AG witness raised the issue of depreciation on embedded plant, the Commission found that IP's proposal was reasonable.

- Docket No. 01-0637: CILCO DST Electric DST case included specific limited projects in the pro forma plant adjustment. Since the impact to plant was of a limited nature, no party proposed an adjustment to roll forward accumulated depreciation through the pro forma period. No issue was raised concerning accumulated depreciation on embedded plant.
- Docket No. 02-0837: CILCO Gas rate case included limited specific projects but also included a significant amount for Blanket projects in the pro forma plant additions adjustment. The CUB/AG witness proposed to reflect accumulated depreciation on all embedded plant through the pro forma period. The Commission approved the CUB/AG adjustment since it concluded "where net plant in service shows a consistent declining trend, it is unwise to adopt a post-test year change that fails to account for accumulated depreciation."[8]
- Docket Nos. 03-0008/0009: AmerenCIPS and AmerenUE rate cases included limited projects in the pro forma plant adjustment. Since AmerenCIPS displayed a declining net plant in service, no pro forma plant additions were allowed. For AmerenUE, however, pro forma plant additions allowed were limited to the extent they exceeded increased accumulated depreciation on embedded plant. The net effect of this decision is the same as rolling forward accumulated

[8] Order, October 17, 2003, Docket No. 02-0837, p. 8.

depreciation to the pro forma period. This position was affirmed on rehearing.

- Docket No. 04-0476: IP Gas rate case included many projects in its pro forma plant adjustment. The parties stipulated that accumulated depreciation on all embedded plant through the pro forma period should be included in rate base. The Commission's approved revenue requirement reflected that stipulation.
- Docket Nos. 06-0070 – 06-0072: Ameren Illinois Utilities Electric rate cases included limited projects in the pro forma plant adjustment. The impact to plant was of a limited nature and no party proposed an adjustment to roll forward accumulated depreciation through the pro forma period.
- Docket Nos. 07-0585 – 07-0590: Ameren Electric and Gas rate cases did not include pro forma plant adjustments; therefore, there was no issue related to accumulated depreciation on embedded plant.

As is apparent, the circumstances in each case were somewhat different but a common thread runs through. Where the Company included only limited projects in its pro forma plant adjustment, the issue of accumulated depreciation on embedded plant was not raised; the Company was not rolling forward its plant balances. However, where a more aggressive position regarding the level of projects included in the pro forma plant

adjustment was taken, the Commission did find that the accumulated depreciation reserve for all embedded plant should likewise be matched to coincide with the date of pro forma plant additions.

Adjustment to Depreciation Expense

Q. Please describe ICC Staff Exhibit 6.0, Schedules 6.10 S and W, Adjustment to Depreciation Expense.

A. Schedules 6.10 S and W correct my direct testimony adjustments, Schedules 1.12 S and W, which inadvertently excluded depreciation expense on pro forma plant additions.

Conclusion

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

Northern Hills Water and Sewer Company - Sewer Operations

Statement of Operating Income with Adjustments

For the Test Year Ending December 31, 2008

Line No.	Description	Company Rebuttal Pro Forma Present (Co. Sch. 2.1 S)	Staff Adjustments (Sch 6.2 S)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Sewer Service Revenues	$ 54,018	$ -	$ 54,018	$ 197,033	$ 1,249	$ 252,300	$ (40,367)	$ 211,933
2	Miscellaneous Revenues	481	-	481	-	-	481	-	481
3	Total Operating Revenues	54,499	-	54,499	197,033	1,249	252,781	(40,367)	212,414
4	Uncollectible Accounts	316	-	316	1,151	7	1,474	(236)	1,238
5	Maintenance Expenses	46,003	1,022	47,025	-	-	47,025	-	47,025
6	General Expenses	22,791	236	23,027	-	-	23,027	-	23,027
7	Depreciation	38,148	161	38,309	-	-	38,309	-	38,309
8	Amortization of CIAC	(7,714)	-	(7,714)	-	-	(7,714)	-	(7,714)
9	Taxes Other Than Income	4,017	-	4,017	(1,241)	1,241	4,017	-	4,017
10	Amortization of PAA	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	103,561	1,419	104,980	(90)	1,248	106,138	(236)	105,902
							-		-
17	State Income Tax	(6,120)	(13)	(6,133)	14,390	-	8,257	(2,930)	5,327
18	Federal Income Tax	(26,422)	(55)	(26,477)	62,129	-	35,652	(12,648)	23,004
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	71,019	1,351	72,370	76,429	1,248	150,047	(15,814)	134,233
21	NET OPERATING INCOME	$ (16,520)	$ (1,351)	$ (17,871)	$ 120,604	$ 1	$ 102,734	$ (24,553)	$ 78,181
22	Staff Rate Base (ICC Staff Exhibit 6.0, Schedule 6.3 S, Column (d))								$ 1,003,611
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.1)								7.79%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 157,915
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								289.76%

Northern Hills Water and Sewer Company - Sewer Operations

Adjustments to Operating Income

For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch. 6.6 S)	Depreciation Expense (Sch. 6.9 S)	Rate Case Expense (Sch. 7.1 S)	Operations & Customer Service Employee Expenses (Sch. 7.2 S)	Corporate Employee Expenses (Sch. 7.3 S)	Maintenance and Repair Expense (Sch. 7.4 S)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Sewer Service Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	(74)	-	1,096	-	1,022
6	General Expenses	-	-	424	(162)	(26)	-	-	236
7	Depreciation	-	161	-	-	-	-	-	161
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	-	-	-	-	-	-
10	Amortization of PAA	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	161	424	(236)	(26)	1,096	-	1,419
								-	
17	State Income Tax	91	(12)	(31)	17	2	(80)	-	(13)
18	Federal Income Tax	393	(51)	(134)	74	8	(345)	-	(55)
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	484	98	259	(145)	(16)	671	-	1,351
21	NET OPERATING INCOME	$ (484)	$ (98)	$ (259)	$ 145	$ 16	$ (671)	$ -	$ (1,351)

Northern Hills Water and Sewer Company - Sewer Operations

Rate Base

For the Test Year Ending December 31, 2008

Line No.	Description	Company Rebuttal Pro Forma Rate Base (Co. Sch. 2.1 S)	Staff Adjustments (Sch 6.4 S)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	$ 603,151	$ -	$ 603,151
2	Less: Accumulated Depreciation	(255,738)	(14,669)	(270,407)
3	-	-	-	-
4	Net Plant	347,413	(14,669)	332,744
5	Additions to Rate Base			
6	Cash Working Capital	8,906	158	9,064
7	Adjustment to Rate Base Allocations	34	-	34
8	Deferred Charges	-	-	-
9	Net Plant Acquisition Adjustment	-	-	-
10	Net Pro Forma Plant	850,624	-	850,624
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(172,886)	6,641	(166,245)
18	Accumulated Deferred Income Taxes	(22,175)	(432)	(22,607)
19	Customer Deposits	(2)	-	(2)
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Staff Rate Base	$ 1,011,914	$ (8,303)	$ 1,003,611

Northern Hills Water and Sewer Company - Sewer Operations

Adjustments to Rate Base

For the Test Year Ending December 31, 2008

Line No.	Description	Working Capital (Sch. 6.8 S)	Other Rate Base Components (Sch. 6.9 S)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(k)
1	Gross Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	(14,669)	-	-	-	-	-	(14,669)
3	-	-	-	-	-	-	-	-	-
4	Net Plant	-	(14,669)	-	-	-	-	-	(14,669)
	-								
5	Additions to Rate Base								-
6	Cash Working Capital	158	-	-	-	-	-	-	158
7	Adjustment to Rate Base Allocations	-	-	-	-	-	-	-	-
8	Deferred Charges	-	-	-	-	-	-	-	-
9	Net Plant Acquisition Adjustment	-	-	-	-	-	-	-	-
10	Net Pro Forma Plant	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	6,641	-	-	-	-	-	6,641
18	Accumulated Deferred Income Taxes	-	(432)	-	-	-	-	-	(432)
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
21	Deferred State Income Taxes	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
	-								
23	Staff Rate Base	$ 158	$ (8,460)	$ -	$ -	$ -	$ -	$ -	$ (8,303)

Northern Hills Water and Sewer Company - Sewer Operations

Revenue Effect of Adjustments

For the Test Year Ending December 31, 2008

Line No.	Description		Per Company	Staff Adjustments	Per Staff
	(a)		(b)	**(c)**	(d)
1	Present Revenues		$ 54,499 (1)	$ -	$ 54,499 (2)
2	Proposed Increase		197,033 (3)	(39,118) (4)	157,915 (5)
3	Proposed Revenues		$ 251,532	$ (39,118)	$ 212,414
4	% Increase		361.54%		289.76%
5	Staff Adjustments:				
6	Rate of Return (Applied to Company Rate Base)			$ (41,523)	
7	Other Rate Base Components	ICC Staff Exhibit 6.0, Schedule 6.9 S		(896)	
8	Operations & Customer Service Employee Expenses	ICC Staff Exhibit 7.0, Schedule 7.2 S		(238)	
9	Corporate Employee Expenses	ICC Staff Exhibit 7.0, Schedule 7.3 S		(26)	
10	Working Capital	ICC Staff Exhibit 6.0, Schedule 6.8 S		17	
11	Depreciation Expense	ICC Staff Exhibit 6.0, Schedule 6.10 S		161	
12	Rate Case Expense	ICC Staff Exhibit 7.0, Schedule 7.1 S		426	
13	Interest Synchronization	ICC Staff Exhibit 6.0, Schedule 6.6 S		612	
14	Maintenance and Repair Expense	ICC Staff Exhibit 7.0, Schedule 7.4 S		1,103	
15	Gross Revenue Conversion Factor	ICC Staff Exhibit 6.0, Schedule 6.1 S		1,249	
16	Rounding			(3)	
17	Total Revenue Effect of Staff Adjustments			$ (39,118)	

Sources:

(1) ICC Staff Exhibit 6.0, Schedule 6.1 S, column (b), line 3
(2) ICC Staff Exhibit 6.0, Schedule 6.1 S, column (d), line 3
(3) ICC Staff Exhibit 6.0, Schedule 6.1 S, column (e), line 3
(4) ICC Staff Exhibit 6.0, Schedule 6.1 S, columns (f) + (h), line 3
(5) ICC Staff Exhibit 6.0, Schedule 6.1 S, column (i), line 24

Northern Hills Water and Sewer Company - Sewer Operations

Interest Synchronization Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	
	(a)	(b)	
1	Staff Rate Base	$ 1,003,611	(1)
2	Weighted Cost of Debt	3.47%	(2)
3	Synchronized Interest Per Staff	34,825	
4	Company Interest Expense	36,073	(3)
5	Increase (Decrease) in Interest Expense	(1,248)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 7.300%	$ 91	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 34.000%	$ 393	

(1) Source: ICC Staff Exhibit 6.0, Schedule 6.3 S, Column (d), line 23.
(2) Source: ICC Staff Exhibit 3.0, Schedule 3.1.
(3) Source: NH Exhibit 2.0, Schedule 2.1 S, page 16 of 21, column (b), line 4

Northern Hills Water and Sewer Company - Sewer Operations

Gross Revenue Conversion Factor

For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.5842%	0.005842	
3	State Taxable Income		0.994158	1.000000
4	State Income Tax	7.3000%	0.072574	0.073000
5	Federal Taxable Income		0.921584	0.927000
6	Federal Income Tax	34.0000%	0.313339	0.315180
7	Operating Income		0.608245	0.611820
8	Gross Revenue Conversion Factor Per Staff		1.644074	1.634468

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Working Capital

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	$ 47,025	ICC Staff Exhibit 6.0, Schedule 6.1 S, column (d), line 5
2	General Expense	23,027	ICC Staff Exhibit 6.0, Schedule 6.1 S, column (d), line 6
3	Taxes Other Than Income	4,017	ICC Staff Exhibit 6.0, Schedule 6.1 S, column (d), line 9
4	Less Real Estate Taxes	(1,560)	Response to Staff data request JMO 1.01, tab "Linked TB", account 7555
5	Operating Expenses Subject to Working Capital Allowance	72,509	Sum of Lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	
7	Working Capital Allowance Per Staff	9,064	Line 5 x Line 6
8	Working Capital Allowance Per Company	8,906	NH Exhibit 2.0, Schedule 2.1 S, page 15 of 21, column (b), line 7
9	Staff Adjustment	$ 158	Line 7 less line 8

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Depreciation (b)	Accumulated Deferred Taxes (c)	Contributions in Aid of Construction (d)
1	Amount per Staff	$ (14,669)	$ (432)	$ 6,641
2	Amount per Company	-	-	-
3	Staff Proposed Adjustment (Line 1 - Line 2)	$ (14,669)	$ (432)	$ 6,641

Source:

Column (b): ICC Staff Exhibit 6.0, Schedule 6.9 S, page 2

Column (c): ICC Staff Exhibit 6.0, Schedule 6.9 S, page 3

Column (d): ICC Staff Exhibit 6.0, Schedule 6.9 S, page 4

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Accumulated Depreciation (c)	Adjustment (d)	Sources (e)
1	Amount per Company			$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments", line 3
2	Gross Utility Plant	$ 521,934			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	Land	3,858			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
4	Vehicles	7,501			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
5	Computers	16,588			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
6		27,947			Sum of Line 3 through Line 5
7	Net Gross Utility Plant	493,987			Line 2 - Line 6
8	Depreciation Rate	2.11%			Docket No. 03-0402 Order Appendix A, Schedule 1 NH-S
9	Addition to Accumulated Depreciation		$ 10,423		Line 7 x Line 8
10	Vehicles	$ 7,501			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
11	Depreciation Rate	25.00%			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
12	Addition to Accumulated Depreciation		1,875		Line 10 x Line 11
13	Computers	$ 16,588			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
14	Depreciation Rate	14.29%			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
15	Addition to Accumulated Depreciation		2,370		Line 13 x Line 14
16	Total Addition to Accumulated Depreciation for Pro Forma Period ending December 31, 2009			14,669	Sum of Line 9 + Line 12 + Line 15
17	Staff Adjustment			$ (14,669)	Line 1 - Line 16

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Deferred Tax Adjustment	Sources
	(a)	(b)	(c)	(d)
1	Amount per Company		$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments"
2	Total 2008 Deferred Income Tax Expense	$ 669		Company response to Staff data request JMO 3.07 - ADIT 2008, tab "ADIT 2008", line 61 + line 62
3	Sewer Allocation Percentage	65%		Company response to Staff data request JMO 1.01, tab "Linked TB"
4	Amount per Staff		432	Line 2 x Line 3
5	Staff Adjustment		$ (432)	Line 1 - Line 4

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Contributions in Aid of Construction Adjustment	Sources
	(a)	(b)	(c)
1	Amount per Company	$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments"
2	Amount per Staff	(6,641)	Company response to Staff data request JMO 2.01, tab "wp - r7(s) - 2008", 2008 amortization rate of 2%
3	Staff Adjustments	$ 6,641	Line 1 - Line 2

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Depreciation Expense

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Sources
	(a)	(b)	(c)
1	Amount per Staff	$ 38,309	ICC Staff Exhibit 6.0, Sch. 6.10 S, page 2, column (c), line 6
2	Amount per Company	38,148	NH Exhibit 2.0, Schedule 2.1 S, page 1 of 21, column (d), line 7
3	Staff Proposed Adjustment	$ 161	Line 1 less Line 2

Northern Hills Water and Sewer Company - Sewer Operations

Adjustment to Depreciation Expense

For the Test Year Ending December 31, 2008

Line No.	Description	Depreciation Expense	Sources
	(a)	(b)	(d)
1	Gross Utility Plant @ 12/31/2008	$ 11,479	ICC Staff Exhibit 5.0, Schedule 5.1
2	2009 Pro Forma Projects	19,734	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	2009 Pro Forma Plant Additions	2,850	NH Exhibit 2.0, Schedule 2.1 S, page 20 of 21, column (g), line 13
4	Vehicles	1,875	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
5	Computers	2,370	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
6	Amount per Staff	$ 38,309	Sum of Lines 1 through 5

Northern Hills Water and Sewer Company - Water Operations

Statement of Operating Income with Adjustments

For the Test Year Ending December 31, 2008

Line No.	Description	Company Rebuttal Pro Forma Present (Co. Sch. 2.1 W)	Staff Adjustments (Sch 6.2 W)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Water Service Revenues	$ 40,606	$ -	$ 40,606	$ 63,080	$ (124)	$ 103,562	$ (20,010)	$ 83,552
2	Miscellaneous Revenues	358	-	358	-	-	358	-	358
3	Total Operating Revenues	40,964	-	40,964	63,080	(124)	103,920	(20,010)	83,910
4	Uncollectible Accounts	173	-	173	268	-	441	(85)	356
5	Maintenance Expenses	20,388	(65)	20,323	-	-	20,323	-	20,323
6	General Expenses	21,179	219	21,398	-	-	21,398	-	21,398
7	Depreciation	18,500	(79)	18,421	-	-	18,421	-	18,421
8	Amortization of CIAC	(6,006)	-	(6,006)	-	-	(6,006)	-	(6,006)
9	Taxes Other Than Income	2,503	-	2,503	63	(63)	2,503	-	2,503
10	Amortization of PAA	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	56,737	75	56,812	331	(63)	57,080	(85)	56,995
							-		-
17	State Income Tax	(1,789)	34	(1,755)	4,588	(12)	2,821	(1,455)	1,366
18	Federal Income Tax	(7,720)	144	(7,576)	19,807	(49)	12,182	(6,280)	5,902
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	47,228	253	47,481	24,726	(124)	72,083	(7,820)	64,263
21	NET OPERATING INCOME	$ (6,264)	$ (253)	$ (6,517)	$ 38,354	$ -	$ 31,837	$ (12,190)	$ 19,647
22	Staff Rate Base (ICC Staff Exhibit 6.0, Schedule 6.3 W, Column (d))								$ 252,201
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.1)								7.79%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 42,946
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								104.84%

Northern Hills Water and Sewer Company - Water Operations

Adjustments to Operating Income

For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch. 6.6 W)	Depreciation Expense (Sch. 6.10 W)	Rate Case Expense (Sch. 7.1 W)	Operations & Customer Service Employee Expenses (Sch. 7.2 W)	Corporate Employee Expenses (Sch. 7.3 W)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Water Service Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	(65)		-	-	(65)
6	General Expenses	-	-	394	(151)	(24)	-	-	219
7	Depreciation	-	(79)	-	-	-	-	-	(79)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	-	-	-	-	-	-
10	Amortization of PAA	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(79)	394	(216)	(24)	-	-	75
								-	
17	State Income Tax	39	6	(29)	16	2	-	-	34
18	Federal Income Tax	167	25	(124)	68	8	-	-	144
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	206	(48)	241	(132)	(14)	-	-	253
21	NET OPERATING INCOME	$ (206)	$ 48	$ (241)	$ 132	$ 14	$ -	$ -	$ (253)

Northern Hills Water and Sewer Company - Water Operations

Rate Base

For the Test Year Ending December 31, 2008

Line No.	Description	Company Rebuttal Pro Forma Rate Base (Co. Sch. 2.1 W)	Staff Adjustments (Sch 6.4 W)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	$ 547,237	$ -	$ 547,237
2	Less: Accumulated Depreciation	(164,912)	(15,959)	(180,871)
3	-	-	-	-
4	Net Plant	382,325	(15,959)	366,366
5	Additions to Rate Base			
6	Cash Working Capital	5,329	19	5,348
7	Adjustment to Rate Base Allocations	31	-	31
8	Deferred Charges	-	-	-
9	Net Pro Forma Plant	7,196	-	7,196
10	Net Plant Acquisition Adjustment	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(112,700)	6,006	(106,694)
18	Accumulated Deferred Income Taxes	(19,809)	(237)	(20,046)
19	Customer Deposits	(1)	-	(1)
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Staff Rate Base	$ 262,371	$ (10,170)	$ 252,201

Northern Hills Water and Sewer Company - Water Operations

Adjustments to Rate Base

For the Test Year Ending December 31, 2008

Line No.	Description	Working Capital (Sch. 6.8 W)	Other Rate Base Components (Sch. 6.9 W)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(k)
1	Gross Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	(15,959)	-	-	-	-	-	(15,959)
3	-	-	-	-	-	-	-	-	-
4	Net Plant	-	(15,959)	-	-	-	-	-	(15,959)
	-								
5	Additions to Rate Base								-
6	Cash Working Capital	19	-	-	-	-	-	-	19
7	Adjustment to Rate Base Allocations	-	-	-	-	-	-	-	-
8	Deferred Charges	-	-	-	-		-	-	-
9	Net Pro Forma Plant	-	-	-	-	-	-	-	-
10	Net Plant Acquisition Adjustment	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	6,006	-	-	-	-	-	6,006
18	Accumulated Deferred Income Taxes	-	(237)	-	-	-	-	-	(237)
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
21	Deferred State Income Taxes	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
	-								
23	Staff Rate Base	$ 19	$ (10,189)	$ -	$ -	$ -	$ -	$ -	$ (10,170)

Northern Hills Water and Sewer Company - Water Operations

Revenue Effect of Adjustments

For the Test Year Ending December 31, 2008

Line No.	Description		Per Company	Staff Adjustments	Per Staff
	(a)		(b)	**(c)**	(d)
1	Present Revenues		$ 40,964 (1)	$ -	$ 40,964 (2)
2	Proposed Increase		63,080 (3)	(20,134) (4)	42,946 (5)
3	Proposed Revenues		$ 104,044	$ (20,134)	$ 83,910
4	% Increase		153.99%		104.84%
5	Staff Adjustments:				
6	Rate of Return (Applied to Company Rate Base)			$ (19,124)	
7	Other Rate Base Components	ICC Staff Exhibit 6.0, Schedule 6.9 W		(1,078)	
8	Operations & Customer Service Employee Expenses	ICC Staff Exhibit 7.0, Schedule 7.2 W		(217)	
9	Gross Revenue Conversion Factor	ICC Staff Exhibit 6.0, Schedule 6.1 W		(124)	
10	Depreciation Expense	ICC Staff Exhibit 6.0, Schedule 6.10 W		(79)	
11	Corporate Employee Expenses	ICC Staff Exhibit 7.0, Schedule 7.3 W		(23)	
12	Working Capital	ICC Staff Exhibit 6.0, Schedule 6.8 W		2	
13	Interest Synchronization	ICC Staff Exhibit 6.0, Schedule 6.6 W		113	
14	Rate Case Expense	ICC Staff Exhibit 7.0, Schedule 7.1 W		396	
15	Rounding			-	
16	Total Revenue Effect of Staff Adjustments			$ (20,134)	

Sources:

(1) ICC Staff Exhibit 6.0, Schedule 6.1 W, column (b), line 3
(2) ICC Staff Exhibit 6.0, Schedule 6.1 W, column (d), line 3
(3) ICC Staff Exhibit 6.0, Schedule 6.1 W, column (e), line 3
(4) ICC Staff Exhibit 6.0, Schedule 6.1 W, columns (f) + (h), line 3
(5) ICC Staff Exhibit 6.0, Schedule 6.1 W, column (i), line 24

Northern Hills Water and Sewer Company - Water Operations

Interest Synchronization Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	
	(a)	(b)	
1	Staff Rate Base	$ 252,201	(1)
2	Weighted Cost of Debt	3.47%	(2)
3	Synchronized Interest Per Staff	8,751	
4	Company Interest Expense	9,282	(3)
5	Increase (Decrease) in Interest Expense	(531)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 7.300%	$ 39	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 34.000%	$ 167	

(1) Source: ICC Staff Exhibit 6.0, Schedule 6.3 W, column (d), line 23.
(2) Source: ICC Staff Exhibit 3.0, Schedule 3.1.
(3) Source: NH Exhibit 2.0, Schedule 2.1 W, page 14 of 21, column (b), line 4

Northern Hills Water and Sewer Company - Water Operations

Gross Revenue Conversion Factor

For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.4249%	0.004249	
3	State Taxable Income		0.995751	1.000000
4	State Income Tax	7.3000%	0.072690	0.073000
5	Federal Taxable Income		0.923061	0.927000
6	Federal Income Tax	34.0000%	0.313841	0.315180
7	Operating Income		0.609220	0.611820
8	Gross Revenue Conversion Factor Per Staff		1.641443	1.634468

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Working Capital

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	$ 20,323	ICC Staff Exhibit 6.0, Schedule 6.1 W, column (d), line 5
2	General Expense	21,398	ICC Staff Exhibit 6.0, Schedule 6.1 W, column (d), line 6
3	Taxes Other Than Income	2,503	ICC Staff Exhibit 6.0, Schedule 6.1 W, column (d), line 9
4	Less Real Estate Taxes	(1,449)	Response to Staff data request JMO 1.01, tab "Linked TB", account 7555
5	Operating Expenses Subject to Working Capital Allowance	42,775	Sum of Lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	
7	Working Capital Allowance Per Staff	5,347	Line 5 x line 6
8	Working Capital Allowance Per Company	5,328	NH Exhibit 2.0, Schedule 2.1 W, page 13 of 21, column (b), line 7
9	Staff Adjustment	$ 19	Line 7 less line 8

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Depreciation (b)	Accumulated Deferred Taxes (c)	Contributions in Aid of Construction (d)
1	Amount per Staff	$ (15,959)	$ (237)	$ 6,006
2	Amount per Company	-	-	-
3	Staff Proposed Adjustment (Line 1 - Line 2)	$ (15,959)	$ (237)	$ 6,006

Source:

Column (b): ICC Staff Exhibit 6.0, Schedule 6.9 W, page 2

Column (c): ICC Staff Exhibit 6.0, Schedule 6.9 W, page 3

Column (d): ICC Staff Exhibit 6.0, Schedule 6.9 W, page 4

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Accumulated Depreciation	Adjustment	Sources
	(a)	(b)	(c)	(d)	(e)
1	Amount per Company			$ -	Company Schedule C - Water Operations, page 1, column "Pro Forma Adjustments", line 3
2	Gross Utility Plant	$ 539,283			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	Land	7,871			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
4	Vehicles	6,971			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
5	Computers	15,416			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
6		30,258			Sum of Line 3 through Line 5
7	Net Gross Utility Plant	509,025			Line 2 - Line 6
8	Depreciation Rate	2.36%			Docket No. 03-0402 Order Appendix A, Schedule 1 NH-W
9	Addition to Accumulated Depreciation		$ 12,013		Line 7 x Line 8
10	Vehicles	$ 6,971			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
11	Depreciation Rate	25.00%			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
12	Addition to Accumulated Depreciation		1,743		Line 10 x Line 11
13	Computers	$ 15,416			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
14	Depreciation Rate	14.29%			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
15	Addition to Accumulated Depreciation		2,203		Line 13 x Line 14
16	Total Addition to Accumulated Depreciation for Pro Forma Period ending December 31, 2009			15,959	Sum of Line 9 + Line 12 + Line 15
17	Staff Adjustment			$ (15,959)	Line 1 - Line 16

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Deferred Tax Adjustment (c)	Sources (d)
1	Amount per Company		$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments"
2	Total 2008 Deferred Income Tax Expense	$ 669		Company response to Staff data request JMO 3.07 - ADIT 2008, tab "ADIT 2008", line 61 + line 62
3	Water Allocation Percentage	35%		Company response to Staff data request JMO 1.01, tab "Linked TB"
4	Amount per Staff		237	Line 2 x Line 3
5	Staff Adjustment		$ (237)	Line 1 - Line 4

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment

For the Test Year Ending December 31, 2008

Line No.	Description	Contributions in Aid of Construction Adjustment	Sources
	(a)	(b)	(c)
1	Amount per Company	$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments"
2	Amount per Staff	(6,006)	Company response to Staff data request JMO 2.01, tab "wp - r7(w) - 2008", 2008 amortization rate of 2%
3	Staff Adjustments	$ 6,006	Line 1 - Line 2

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Depreciation Expense

For the Test Year Ending December 31, 2008

Line No.	Description	Amount	Sources
	(a)	(b)	(c)
1	Amount per Staff	$ 18,421	ICC Staff Exhibit 6.0, Sch. 6.10 W, page 2, column (c), line 5
2	Amount per Company	18,500	NH Exhibit 2.0, Schedule 2.1 W, page 1 of 21, column (d), line 7
3	Staff Proposed Adjustment	$ (79)	Line 1 less Line 2

Northern Hills Water and Sewer Company - Water Operations

Adjustment to Depreciation Expense

For the Test Year Ending December 31, 2008

Line No.	Description	Depreciation Expense	Sources
	(a)	(b)	(c)
1	Gross Utility Plant @ 12/31/2008	$ 14,178	ICC Staff Exhibit 5.0, Schedule 5.1
2	2009 Pro Forma Plant Additions	298	NH Exhibit 2.0, Schedule 2.1 W, page 18 of 21, column (f), line 13
3	Vehicles	1,743	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
4	Computers	2,202	Company response to Staff data request JMO 1.01, tab "wp - f - depr"