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STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 14-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

October 10, 2014

Stephen P. St. Cyr & Associates
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Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive, Biddeford, Me.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to prepare the petition, the prefiled testimony and financial exhibits. In addition, I am available to represent the Company at hearings and technical sessions and to respond to data requests and other matters related to this filing.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission, including requests for new and expanded franchises, requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for general rate increases and step increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to obtain financing from CoBank and to report on financings related to various vehicles.

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The financings will allow the Company to upgrade and replace plant at its Indian Mound water system and replace vehicles in the normal course of business.

Q. Please summarize the Indian Mound improvements.

A. See attached Summary of the 2014 Indian Mound Project ("Project") provided by Jake Dawson, the Company's supervisor of operations.

Q. What are the projected costs of the Project?

A. The projected costs are $129,775.

Q. How does the Company propose to finance such costs?

A. The Company proposes to borrow the funds from CoBank.

Q. What are the terms and conditions?

A. The proposed terms and conditions are 15 years at a 5.5% interest rate. Such terms and conditions are consistent with the recently PUC approved CoBank financing for the Company.

Q. Please summarize the 2013 vehicle purchases, costs and the financing.

A. In 2013 the Company purchased 2 2013 Ford F250s for $36,918 and $26,536. Both vehicles were financed thru Ford Motor Credit Co. The term and interest rate for both vehicles are 5 years and 5.95%.

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Q. Please summarize the 2014 vehicle purchases, costs and the financing.

A. In 2014 the Company purchased 1 2014 Caterpillar Model 304E CR Excavator from Milton for $65,250. The Company entered into an installment sale contract with Southworth-Milton Corp. The term and interest rate are 5 years and 0.72%. Also, in 2014, the Company purchased 1 2014 Ford F150 for $31,771. The Ford F150 was financed thru Ford Motor Credit Co. The term and interest rate are 5 years and 6.24%.

A. What is the total amount of the financings?

Q. The total amount of the financings is $290,250.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The Indian Mound water system is in need of an upgrade. The improvements will increase the quality of the water and the reliability of the infrastructure. The vehicles were in need of replacement. The new vehicles will increase the Company's ability to operate and maintain all of its water systems.

Q. How is the Company proposing to recover these investments?

A. The Company anticipates incorporating the plant in rate base and the cost of the debt in its capital structure as part of its next rate case.

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Q. Is there anything else that you would like to address before you address the financing schedules?

A. Yes. Because the 2 Ford F250s were purchased and financed in 2013, the cost of the vehicles and the financing are reflected in the 2013 financial statements. As such, no proforma adjustments are required.

Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Deferred Debits?

A. Yes. Generally, column (a) indicates the line number and column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2013 account balances. Column (d) identifies the proforma adjustments to the December 31, 2013 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2014 additions to plant and related financings.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $209,526 represents the total additions to utility plant less the retirement of the plant that was replaced.

The second adjustment to Accumulated Depreciation for a net amount of ($5,392) represents a half year depreciation on the additions to plant less the retirement of the plant that was replaced.

The third adjustment to Cash for ($4,030) is the net of the cash received from CoBank and the vehicle lenders less costs for the new plant.

The fourth adjustment to Miscellaneous Deferred Debits is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of such costs.

Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1-1, except that the Company added 2 columns to reflect adjustments to long term debt approved in DW 13-335. The adjustments reflect the increase in long term debt and the decrease in accounts payable.

Q. Please explain the adjustments related to 2014 additions to plant and related financings.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for $11,540 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation expenses, taxes and interest expense).

The second adjustment to Other Long Term Debt for $202,614 represents the net amount of the borrowings of $226,796 and the first year repayment on the loans of $24,182.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to 2014 additions to plant and related financings.

A. There are 5 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of $34,781 represents the revenue requirement associated with the additions to plant. The revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Depreciation Expense of $11,878 represents a half year depreciation on the additions to plant.

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The third adjustment to Taxes other than Income of $1,885 represents the increase in state utility property tax and the local property tax expense on the new plant.

The fourth and fifth adjustments to Interest Expense and Amortization of Debt Expense of $9,245 and $233, respectively, represent the first year interest expense on the new debt and the first year amortization of the financing costs.

Q. Would you please explain Schedule SPS 3, entitled Capital Structure?

A. The adjusted actual 2013 Current Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's debt to equity position is weighted towards equity due primarily to the owner funding past improvements.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the debt financings, (2) the utilization of the funds for the Indian Mound project and the vehicles, (3) the repayment of the principal and interest on the loans and (4) the anticipated receipt of revenue.

Q. How does the Company propose to repay the new debt?

A. The Company's ability to repay the new debt is only possible with an increase in rates.

Q. Would you like to explain SPS-5, Preliminary Calculation of Revenue Requirement?

A. The sum of the additions to plant less the related accumulated depreciation results in an increased rate base of $214,918. The Company is applying a 4.25% return to determine the additional net operating income required. In addition, the Company adds the incremental increase in operation costs to the additional net operating income required in order to determine the total additional revenue requirement of $34,781.

Q. Would you please explain SPS-6, Actual Rate of Return.

A. SPS-6 shows the amount of the financing, the interest rates, the interest expense, the amortization of the financing costs and the actual cost rate.

Q. Would you please explain SPS-7, Plant, Accumulated Depreciation and Depreciation Expense.

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A. SPS-7 is a schedule of costs for the various plant broken down by plant account. The Company is utilizing PUC determined typical water company service lives and depreciation rates applied to the plant costs in order to determine the annual depreciation.

Q. Would you please explain SPS-8, Taxes.

A. SPS-8 is a schedule that shows the calculation of the increase in state and local property taxes.

Q. Would you please explain SPS-9, the Source and Use Statement

A. The source of the funds is CoBank, Ford Motor Credit Co. and Southworth-Milton, Inc. The use of the funds is the Indian Mound project, the Ford F150 and the Excavator.

Q. Would you please explain SPS-10, Estimated Financing Costs.

A. The Company estimates that it will incur approximately $3,500 in financing costs.

Q. Is there anything else that the Company would like to bring to the Commission's attention?

A. No.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve the following financings:

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2013	Ford Motor Credit	$36,918
2013	Ford Motor Credit	26,536
2014	Southworth-Milton	65,250
2014	Ford Motor Credit	31,771
2014	CoBank	129,775
	Total	$290,250

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

10/10/2014