

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY, INC.

DW 18-

PETITION FOR APPROVAL OF DRINKING AND GROUNDWATER

TRUST FUND FINANCING AND STEP INCREASE

**PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

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, Maine.

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 support Hampstead Area Water Company, Inc's  
(Company or HAWC) effort to obtain Public Utilities Commission (PUC)  
approval of financing with Drinking and Groundwater Trust Fund (DGTF) and  
approval of related step increase. My responsibilities include preparing the  
financial exhibits and prefiled direct testimony which describes the financing and  
the step increase. In addition, I am prepared to testify in support of financing and  
step increase.

Q. Have you prepared testimony before this Commission?

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

5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to support the Company's effort to borrow funds  
7 from the State of New Hampshire's DGTF, which will allow it to construct a one  
8 million gallon water storage tank and appurtenant infrastructure in its Atkinson  
9 and Hampstead water system.

10 Q. When does the Company anticipate beginning the construction of the tank?

11 A. Fall of 2018.

12 Q. When does the Company anticipate completing the construction of the remaining  
13 infrastructure?

14 A. Spring of 2019 – there is a 12 week construction schedule.

15 Q. What are the costs of the water storage tank and the appurtenant infrastructure?

16 A. The estimated costs are \$2,047,662.

17 Q. How much of the costs will be financed?

18 A. \$969,945.

19 Q. What is the source of financing?

20 A. The State Revolving Drinking and Groundwater Trust Fund (DGTF).

21 Q. Has the project been approved by the New Hampshire Department of  
22 Environmental Services (DES)?

23 A. Yes.

1 Q. Are the funds available from the DGTF?

2 A. Yes.

3 Q. What are the terms and conditions of the DGTF loan?

4 A. The length of the loan is 30 years. The interest rate is 2.424%.

5 Q. Did the Company consider any other financing options?

6 A. No.

7 Q. How does the Company propose to recover its investment?

8 A. The Company proposes to recover its investment through an increase in rates to

9 its customers via a step increase.

10 Q. Will the DGTF approve the loan without an increase in rates?

11 A. No.

12 Q. How much additional revenue will be required in order to recover and earn a

13 return on the investment?

14 A. As shown on SPS-5, the total additional revenue required is \$83,308.

15 Q. What are the current rates?

16 A. The current rates at a consumption rate of \$5.95 per 100 cubic feet of water

17 supplied.

18 Q. What are the proposed, new rates?

19 A. The Company proposes to maintain the customer charges per meter size and

20 increase the consumption charge from \$5.95 to \$6.29 per ccf.

21 Q. Has the Company determined the impact of the financing and the additions to

22 plant on the Company's financial statements?

23 A. Yes. I have prepared proforma financial statements identified as SPS 1-1 – 8.

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

3 A. Yes. Generally, column (a) identifies the line number on the schedule. Column  
4 (b) identifies the PUC account title and account number. Column (c) identifies  
5 the actual December 31, 2017 account balances. Column (d) identifies the  
6 adjustments. Column (e) reflects the adjusted December 31, 2017 account  
7 balances for the 2018 Atkinson Tank Financing and Step Increase.

8 Q. Please explain the adjustments related to 2018 DGTF financing and step increase.

9 A. Schedule SPS 1-1 contains 4 adjustments.

10 The first adjustment to Utility Plant for \$2,047,662 represents the total  
11 additions to plant in service for the costs of the Atkinson Water Storage Tank and  
12 the appurtenant infrastructure. There are no retirements associated with the new  
13 plant.

14 The second adjustment to Accumulated Depreciation for \$22,752  
15 represents a half-year depreciation on the \$2,047,662 of plant additions.

16 The third adjustment to Cash for (\$13,227) is the net of the cash received  
17 from the DGTF financing and the anticipated revenue from the proposed step  
18 increase less payment for the new plant, the repayment of the new loan and the  
19 payment of increased taxes. While the Company would prefer that the net cash be  
20 positive, the Company has cash to cover the negative cash impact.

21 The fourth adjustment to Miscellaneous Deferred Debits for \$11,875 is the  
22 net of the costs incurred in order to pursue DES approval of the financing and

1 PUC approval of the financing and step increase and the amortization of the  
2 DGTF financing costs and the recovery of the step increase costs.

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

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

6 Q. Please explain the adjustments related to the 2018 DGTF financing and step  
7 increase.

8 A. Schedule SPS 1-2 contains 3 adjustments.

9 The first adjustment to Retained Earnings for \$10,137 represents the net  
10 income impact of the various income statement transactions (i.e., revenue,  
11 depreciation expenses, amortization of CIAC, taxes and interest expense).

12 The second adjustment to Other Long Term Debt for \$947,679 represents  
13 the net amount of the borrowings of \$969,945 and the first year repayment on the  
14 loan of \$22,266.

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

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

17 Q. Please explain the adjustments related to the 2018 DGTF financing and step  
18 increase.

19 A. There are 7 adjustments to the Statement of Income.

20 The first adjustment to Operating Revenue of \$83,308 represents the  
21 anticipated revenue requirement associated with the step increase. The  
22 anticipated revenue requirement allows the Company to recover its investment  
23 and earn a return on the unrecovered investment.

1           The second adjustment to Depreciation Expense of \$22,752 represents the  
2 increase due to a half-year depreciation on the additions to plant.

3           The third adjustment to Amortization of CIAC of \$11,975 represents the  
4 increase due to a half-year amortization of CIAC on the contributed portion of the  
5 additions to plant.

6           The fourth adjustment to Taxes other than Income of \$38,336 represents  
7 the increase in state and local property taxes.

8           The fifth adjustment to Income Taxes of \$168 represents the increase in  
9 state business enterprise taxes.

10          The sixth adjustment to Interest Expense of \$23,265 represents the first  
11 year interest expense on the new debt

12          The seventh adjustment to Amortization of Debt Expense of \$625  
13 represents the first year amortization of the financing and step increase costs.

14 Q.      Would you please explain Schedule SPS 3, entitled Balance Sheet, Equity Capital  
15 and Liabilities?

16 A.      The actual 2017 Current Year End Balance is also reflected on the Balance Sheet  
17 (see SPS 1-2). The related capitalization ratios are shown on the bottom half of  
18 the Schedule. The Company's debt to equity position is weighted towards debt  
19 due to its negative equity position. The Company's owner has made significant  
20 equity contribution in recent years. The Company expects that the ratio will  
21 improve with the recently approved rate increase in DW 17-118.

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

1 A. Schedule SPS-4 identifies the specific journal entries used to develop the  
2 proforma financial statements. The significant journal entries are the recording of  
3 (1) the receipt of the grant and the borrowing of funds, (2) the utilization of the  
4 funds for the additions to plant, (3) the repayment of the principal and interest on  
5 the loan, and (4) the anticipated revenue requirement via the step increase.

6 Q. Would you like to explain SPS-5?

7 A. SPS-5 shows the calculation of the revenue requirement. The sum of the  
8 additions to plant less the related accumulated depreciation less the CIAC plus the  
9 amortization of the CIAC result in a rate base of \$959,168. The Company is  
10 applying the cost of the debt of 2.424 to determine the additional net operating  
11 income required. In addition, the Company adds a full year depreciation, a full  
12 year amortization of CIAC and taxes to the additional net operating income  
13 required in order to determine the total additional revenue requirement of  
14 \$83,308.

15 Q. Would you please explain SPS-6?

16 A. The Company has added two columns to Attachment B, Schedule 6a of the  
17 settlement schedules approved in DW 17-118. Schedule 6a shows the calculation  
18 of rates that support the recently approved rates including the \$5.95 per ccf  
19 consumption rate. The Company has added the proposed increase in revenues to  
20 the recently approved revenues and calculated a new consumption rate of \$6.29  
21 per ccf ( $\$1,551,674 / 246,870$ ). The Company proposes to maintain the customer  
22 charges per meter size.

23 Q. Would you please explain SPS-7?

1 A. SPS-7 shows the source and use of the funds. The source is the State of NH for  
2 both the grant and the loan. The use is the construction of the water storage tank.

3 Q. Would you please explain Schedule SPS 8?

4 A. SPS-8 shows the anticipated financing costs to pursue NHDES and NHPUC  
5 approvals.

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

7 A. The Company proposes to increase rates via a step increase upon completion of  
8 the project. The Company's ability to repay the DGTF loan is dependent on  
9 NHPUC approval of the step increase.

10 Q. Why should the Commission approve the financing and step increase?

11 A. The Commission should approve the financing because it is in the best interest of  
12 the Company and its customers. The construction of the water storage tank will  
13 allow the Company to store more water and be better able to meet demand. The  
14 Atkinson water storage tank is also part of the Southern NH Regional Water  
15 Interconnection Project. The Project will allow the Company access to greater  
16 water supply to meet both current and future water demand.

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

19 A. No.

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

21 A. The Company respectfully requests that the PUC approve the 2018 DGTF  
22 financing of \$969,945, under the terms stated previously and the step increase  
23 amounting to an increase in revenues of \$83,308.

1 Q. Does this conclude your testimony?

2 A. Yes.

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