STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 08-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

May 14, 2008

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 financial schedules, the prefiled direct testimony, and the petition for authority to borrow funds and to increase rates ("petition"). In addition, I am prepared to testify in support of the Lakes Region Water Company's petition.

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 financings including State Revolving Fund ("SRF"), commercial bank and owner financings, and requests for rate increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to obtain Public Utilities Commission ("PUC" or "Commission") approval to raise capital from Barbara and Tom Mason ("Owners" or "Masons") and to use such capital (1) to complete the construction of a water storage tank and mains at Paradise Shores, (2) to complete various wells and related projects at Hidden Valley, (3) to replace mains and make improvements at 175 Estates, (4) to construct well and make improvements at Indian Mound, (5) to construct mains and rebuild pump station at Gunstock Glen including the interconnection with the Brake Hill system and (6) to replace vehicles, shop equipment and other equipment. In addition, the purpose of my testimony is to support the Company's effort to obtain PUC approval to increase rates via step increases associated with the additions to plant.

Q. Please describe the water storage tank and mains at Paradise Shores.

A. The storage tank is a 82' x 55' x 12', 325,000 gallon concrete tank (cast in place) which will be connected to the existing pump house by a 4,500 12" PVC main.

Q. Why is it necessary to add the water storage tank?

A. The water storage tank is necessary to meet DES requirement to provide an adequate amount of water storage capacity at the Paradise Shores water system in order to be able to provide reliable water service to both the Paradise Shores and Swissvale developments. Adequate water storage capacity will also help to provide the Paradise Shores water system with a means to keep up with increased water demands experienced during periods of high water demand, such as July 4th, when the water system's supply sources are being used at their capacity.

Q. When does the Company anticipate that the water storage tank will be completed and placed in services?

A. The Company anticipates that the water storage tank will be completed and placed in service on or about June 30, 2008.

Q. What are the costs of the water storage tank and mains?

A. The estimated water storage and mains costs are $750,000.

Q. Has the Commission reviewed and approved this project?

A. Yes. The Commission approved the financing of this project in DW 03-189.

Q. Why is the Company seeking additional Commission approval?

A. At the time of the Commission's approval, the total costs of the project was estimated to $350,000. The Company anticipated a contribution in aid of construction of $185,500 toward the project from the Property Owners Association at Swissvale ("POASI" or "Swissvale"), resulting in a financing request and approval of $164,500. The Company presently anticipates that the total costs of the project will be $750,000. It now anticipates a total contribution in aid of construction of $300,000 toward the project from POASI resulting in a total financing of $450,000. The additional amount of financing requiring Commission approval is $285,500 ($450,000 - $164,500).

Q. Please describe the various well and related projects at Hidden Valley.

A. The well and related projects include deepening an existing well from 183’ to 1,003’ which was also hydrofracted. The water system’s upper and lower sections are being reengineered in order to implement the integration of both system sections. The implementation will include replacement or addition of well meters, booster pumps and related monitoring equipment. These plant additions placed in service over the past several years should address all of deficiencies of NHDES Administrative Order No. 07-029.

Q. Why is it necessary to construct wells?

A. Hidden Valley has had a severe lack of source capacity for a number of years. In 2004 a hydrogeology study found several areas of promise for additional source. The Company drilled one well that was found to produce minimal flow and was therefore abandoned. In 2006, a second well site was found. The Company drilled a well (BRW#5), yielding approximately 10 gpm. On October 31, 2006 DES issued a letter of deficiency (“LOD”) # WSEB 06-190 which addresses the need for additional source in the system and the interconnection of the upper and lower sections of Hidden Valley. Since the issuance of the LOD the Company has found an additional source and engaged the services of an engineering firm and a hydrogeologist firm to engineer and implement the coordination of all water sources and storage and to minimize leaks in the water system.

Q. When does the Company anticipate that the wells will be completed and placed in service?

A. Some of the project has been completed and is in service. Some of the project is planned to go into service later in 2008.

Q. What are the costs of the well and related projects?

A. The estimated well and related project costs are $151,964.

Q. Please describe replacement of mains and the other improvements at 175 Estates.

A. The Company has installed 1,220' of 4" DRII Fusion water mains to replace pvc mains that ran through the woods. 1,120' of 2" pvc mains has also been installed. The pump station has been replaced and a water filtration system for iron has been installed.

Q. Why is it necessary to replace the mains and make other improvements?

A. It is necessary to replace certain mains in order to increase water pressure to certain customers. Part of the distribution system was poorly designed and resulted in lower water pressure to certain customers.

Q. When does the Company anticipate that the mains and other improvements will be completed and placed in service?

A. The mains and other improvements have been completed and are in service.

Q. What are the costs for the main replacements and other improvements?

A. The estimated costs for the main replacement and other improvements are $167,954.

Q. Please describe the construction of the well and other improvements at Indian Mound.

A. A point well has been replaced with a 60’ deep gravel packed well. The Company has also purchased and installed pumps and mains in order to connect the well to the water system.

Q. Why is it necessary to construct a well and make other improvements?

A. It is necessary to construct a new well in order to increase production and to assure that there is adequate and reliable source of supply. The two point wells that supplied the source water to Indian Mound customers have significantly decreased in production. One point well will remain in service to provide a second source of water. The other point well has been deactivated.

Q. When does the Company anticipate that the well and other improvements will be completed and placed in service?

A. The well and other improvements have been completed and are in service.

Q. What are the costs for the well and the other improvements?

A. The estimated costs for the well and other improvements are $10,395.

Q. Please describe the construction of mains and pump station at Gunstock Glen.

A. The pump station is being totally remodeled and repiped. Gunstock Glen is being interconnected with the Brake Hill water system. A new SCADA control system is being added in order to control, coordinate and monitor three wells in the systems, and to remotely report to the office.

Q. Why is it necessary to construct mains and pump station?

A. It is necessary to construct mains in order to interconnect the Gunstock Glen water system with the Brake Hill water system. The interconnection will increase the source and storage for both water systems.

Q. When does the Company anticipate that the mains and the repiped pump station will be completed and placed in service?

A. The Company anticipates that the mains and the repiped pump station will be completed and placed in service later in 2008.

Q. What are the costs for the construction of the mains and the pump station?

A. The estimated costs for the construction of the mains and the pump station are $90,000.

Q. Please describe the replacement of one vehicle, the addition of a second vehicle, and the addition of shop equipment and miscellaneous equipment.

A. A 2007 GMC Sierra pickup was purchased to replace a 2003 GMC Sierra pickup. A 2007 Chevrolet Silverado pickup has been added to the fleet. The Company has purchased miscellaneous shop and field equipment. The Company has also purchased and replaced a hand held meter reader and its compatible computer software.

Q. Why is it necessary to replace the vehicles, shop equipment and miscellaneous equipment?

A. It is necessary to replace the vehicle due to increased maintenance and costs. It is necessary to add a vehicle in order to better operate and maintain the water systems and to better serve customers.

Q. When does the Company anticipate that the vehicles, shop equipment and miscellaneous equipment will be purchased and placed in services?

A. The vehicles, shop equipment and other equipment went in service in 2007.

Q. What are the costs to replace the vehicles, shop equipment and miscellaneous equipment?

A. The estimated costs for the replacement of vehicles, shop equipment and miscellaneous equipment are $74,477.

Q. Please summarize the total costs to be financed.

A. A summary is as follows:

Water Storage Tank / Main at Paradise Shores	$285,500
Wells and related projects at Hidden Valley	151,964
Main replacements and other improvements at 175 Estates	167,594
Well and other improvements at Indian Mound	10,395
Mains and Pump Station at Gunstock Glen	90,000
Vehicles, Shop and Other Equipment	74,477
Total Financing	$779,930

Q. What financing alternatives have the Company considered?

A. The Company has approached its banker, TD Banknorth, about financing some or all of the projects. At December 31, 2007 the Company owed TD Banknorth approximately $885,000, including approximately $345,000 for the construction of the water storage tank at Paradise Shores. TD Banknorth indicated that it did not believe that the Company had the cash flow in order to support the repayment of additional debt. The Company believes that with Commission approval of the financing and the step increases, the Company's cash flow will improve such that TD Banknorth will consider financing some or all of the projects.

Q. Without bank financing, are the owners willing and able to finance the projects?

A. Yes.

Q. What is the amount of the financing from the owners?

A. The amount of the financing from the owners is $779,930. The amount is the net of the total project costs ($1,244,430), less the total anticipated contributions in aid of construction ($300,000), less the amount of financing previously approved for the water storage tank ($164,500).

Q. How much of the financing is debt and how much of the financing is equity?

A. The amount of debt financing is $629,930. The amount of equity financing is $150,000.

Q. How was the equity contribution determined?

A. In recent years, the Company's debt to equity ratio has been approximately 70%/30%. At December 31, 2007, the debt to equity ratio is approximately 71%/29%. The Company believes that while its debt and debt ratio has generally increased in recent years, its present debt to equity ratio is in a reasonable and in an acceptable range.

Q. If the Company believes that the present debt to equity ratio is reasonable and acceptable, why is the Company requesting its owners to make an equity contribution?

A. The Company is requesting its owners to make an equity contribution because the staff of the Commission and the Commission have expressed some concern about the Company becoming more leveraged. The Company believes that the additional paid in capital, along with the step increases, will improve its equity position, lessen it debt position, improve cash flow, and lessen the amount of the repayment of the debt.

Q. With the equity contribution of $150,000 and an increase in revenues from the step increases, what will the debt to equity ratio be?

A. The debt to equity ratio will be approximately 67%/33%.

Q. Is there anything else that you would like to add about the debt to equity position?

A. Yes. The owners of the Company are also the lenders of some of the existing/future debt. The owners have the resources to provide additional capital if the Company needs additional capital in order to meet its obligations.

Q. How much is the debt financing?

A. The debt financing amounts to $629,930.

Q. What are the terms and conditions of the owner loan?

A. The term is 20 years. The interest rate is 9.75%. The Company is assuming that the loan begins July 1, 2008.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because the proposed financing is in the best interest of the public and consistent with the public good. The financing enables the Company to complete various projects in progress and enhance the Company's ability to provide safe, reliable and adequate water to its customers. The projects are necessary (and some of the projects are required by the NHDES) in order to insure present and future water supply.

Q. In DW 07-105 the Company agreed to make a filing with the Commission by May 15, 2008, with respect to approval of new financing and recovery of certain capital improvements. Is this the filing that the Company agreed to file by May 15, 2008?

A. Yes.

Q. Also, in DW 07-105, the Company agreed that a review of the capital structure and on going access to capital, including low interest State Revolving Funds ("SRF"), needed for system improvements was appropriate. Further, the Company agreed that an additional consideration in this filing will be the status of land and wells developed by the stockholders and how those assets will be treated for ratemaking purposes. Is that correct?

A. Yes.

Q. Does the filing address the Company's proposed capital structure?

A. Yes, this filing addresses the impact of the proposed financing and step increases on the capital structure.

Q. Does this filing address the Company's ongoing access to capital, including low interest SRF needed for system improvements?

A. Yes, this filing addresses the Company's ongoing access to capital needed for system improvements thru 2008. Please note that SRF are not available for any of the projects completed and/or in progress. Also, please note that the Company believes that once the financing and step increases are approved that it will be able to either refinance existing debt and/or finance new projects.

Q. What is the status of the land and wells developed personally by the stockholders?

A. The stockholders are generally interested in land both personally for investment and for the Company as potential source of water. In 2007 land adjacent to the Paradise Shores water system became available. After some negotiation, the stockholders purchased the land. In addition, stockholders have expended some funds to explore for and drill for water.

Q. How will the land, well and other related assets be treated for ratemaking purposes.

A. It is premature to consider the ratemaking treatment of the land, wells and other related assets. The Company does not own the assets. The Company is not requesting Commission approval of the financing of such assets. The Company is not requesting rates for the recovery of such an investment.

Q. When will it be appropriate to consider the ratemaking treatment of land, wells and related assets?

A. The appropriate time to address the ratemaking treatment of land, wells and related assets is when the Company requests Commission approval for financing the acquisition of land, wells and related assets and/or for recovery of the investment.

Q. Does this complete your discussion about finance matters that the Company agreed to in DW 07-105?

A. Yes.

Q. How is the Company proposing to recover the investments subject to this financing?

A. The Company is proposing three step increases to recover these investments.

Q. Why are the step increases appropriate?

A. It is appropriate because certain projects are already completed and providing service to customers. It is also appropriate because NHDES required that the Company undertake some of the projects. Certain other projects are necessary. It is more cost effective and efficient to pursue step increases at the time of financing than waiting for a rate case. If the Company were to pursue a rate case, the Company would make proforma adjustments to the test year for such investments and incorporate them in the rate increase, most likely as a step increase.

Q. What are the consequences if the step increases are not approved?

A. It could delay the construction of the well at Hidden Valley and/or the addition of mains and the repiped pump station at Gunstock Glen. If such a delay were to occur, the Company could continue to experience capacity problems at Hidden Valley and could experience operating and maintenance problems at Gunstock Glen. It could result in the owners continuing to put money into the Company to meet day to day cash requirements.

Q. Are there any other consequences if the step increases are not approved?

A. It could also force the Company into pursuing a general rate increase. Even with the step increases, the Company is reviewing whether a general rate increase is appropriate.

Q. What is the Company proposing for step increases?

A. The Company is proposing three step increases. The first step increase would be for projects subject to the financing that are completed and placed in service before January 1, 2008. The Company proposes that the first step increase would become effective immediately. The second step increase would be for the water storage tank and main at Paradise Shores. The project is planned to be completed and placed in service on or about June 30, 2008.

The second step increase would become effect on July 1, 2008 or as soon as the tank and mains are completed and placed in service. The third step increase would be for projects subject to the financing that are completed and placed in service later in 2008. The Company proposes that the third step increase would become effective upon completion and upon providing service to our customers.

Q. What are the revenue requirements associated with the three step increases?

A. The revenue requirements are $67,990, $77,914 and $36,169 for step 1, step 2 and step 3, respectively.

Q. Do you have any schedules as part of your testimony?

A. Yes. There are two sets of schedules; the first set is identified as Step 1 – 3 and the second set is identified as SPS 1 – 10.

Q. Would you please explain Schedule Step 1?

A. Before I explain Schedule Step 1, the sum of the three steps total the total revenue requirement being proposed. The Company is proposing the various steps to coincide with the placing of various projects into service. The phasing in of rates to coincide with the assets being placed in service will lessen the rate impact on customers and improve the Company's cash flow and earnings.

Q. Please continue.

A. Step 1 would be for projects subject to the financing that are completed and placed in service before January 1, 2008. Those projects include some of the wells and related expenditures at Hidden Valley, the mains, treatment and pumping equipment and other improvements at 175 Estates, the well, pumping equipment and other improvements at Indian Mound and the vehicles, shop equipment and miscellaneous equipment. The Company proposes that the first step increase would become effective immediately because these assets are completed and providing service to customers. The additions to plant for step 1 amount to $306,625. The total plant of the $306,625, less the related accumulated depreciation of $12,300, results in net plant of $294,325. The addition to plant and the related accumulated depreciation are further supported by schedule Step 1a. The Company is applying the cost of equity rate of 9.75% to determine the additional net operating income required of $28,697. In addition, the Company adds operating expenses related to these assets of $39,294 to the additional net operating income required in order to determine the total additional revenue requirement of $67,990. The additional revenue requirement of $67,990 represents an increase of approximately 9%.

Q. Please explain Step 2.

A. Step 2 would be for the water storage tank and mains project subject to the financing that are planned to be complete and placed in service on or about June 30, 2008. The Company proposes that the second step increase would become effective July 1, 2008 assuming that assets are completed and providing service to customers. The estimated additions to plant for step 2 amount to $750,000. The total plant of the $750,000, less the related accumulated depreciation of $10,504, results in net plant of $739,496. The sum of the CIAC of $300,000, less the related accumulated amortization of $4,429, results in net CIAC of $295,571. The addition of the net plant of $739,496, less the net CIAC of $295,571, results in a total additional rate base of $443,925. The addition to plant and the related accumulated depreciation and the addition contribution in aid of construction and accumulated amortization are further supported by schedules Step 2a & 2b. The Company is applying the cost of equity rate of 9.75% to determine the additional net operating income required of $43,283. In addition, the Company adds operating expenses related to these assets of $34,631 to the additional net operating income required in order to determine the total additional revenue requirement of $77,914. The additional revenue requirement of $77,914 represents an increase of approximately 10%.

Q. Please explain Step 3.

A. Step 3 would be for projects subject to the financing that are completed and placed in service before December 31, 2008. Those projects include the remaining wells and related expenditures at Hidden Valley and the mains and pump station at Gunstock Glen. The Company proposes that the third step increase would become effective January 1, 2009, assuming that assets are completed and providing service to customers. The additions to plant for step 3 amount to $187,805. The total plant of the $187,805, less the related accumulated depreciation of $3,055, results in net plant of $184,750. The addition to plant and the related accumulated depreciation are further supported by schedule Step 3a. The Company is applying the cost of equity rate of 9.75% to determine the additional net operating income required of $18,013. In addition, the Company adds operating expenses related to these assets of $18,156 to the additional net operating income required in order to determine the total additional revenue requirement of $36,169. The additional revenue requirement of $36,169 represents an increase of approximately 5%.

Q. Are there any other rate matters that need to be addressed?

A. Yes. Gunstock Glen presently charges stand alone rates. The stand alone rate is $239.20 per year per customer. Due to construction of the mains and the interconnection with the Brake Hill water system, the Company proposes to charge the Gunstock Glen customers the Company's consolidated rates. The consolidated rate (for a nonmetered system) is presently $421.48. With the improvements at Gunstock Glen and the connection to Brake Hill, it is appropriate for the Company to now charge Gunstock Glen customers the consolidated rates.

Q. Before you discuss the financing and step increase schedules, are there any other matters to discuss?

A. No.

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

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2007 account balances. Column (d) identifies the financing and step increase adjustments to the December 31, 2007 account balances. Column (e) is the sum of columns (c) and (d) and identifies the proformed December 31, 2008 account balances.

Q. Please explain the adjustments related to financing and step increases.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant represents the net additions to plant in service for all the projects less the related retirements. Certain projects were completed in 2007 and are already reflected in the 12/31/07 Utility Plant in Service balance. Certain other projects were under construction at 12/31/07 and as such, the costs related to those projects are reflected in the 12/31/07 Construction Work in Progress balance. Certain other projects are being constructed during 2008. The total costs of the additions to rate base amount to $1,244,430.

The second adjustment of ($66,195) to Accumulated Depreciation is for the cost of the retired plant of ($92,054) and the half-year depreciation of $25,859 on the $1,244,430 of plant additions.

The third adjustment of $40,000 to Cash is the net of the cash received from the financing and the proposed step increases, less the payment of certain accounts payables, less payment for the new plant, the repayment of the new loan, and the payment of operating expenses.

The fourth adjustment of $4,750 to Miscellaneous Deferred Debits is the net of the costs incurred in order to pursue PUC approval of the financing and step increases, and the recovery of those expenditures related to the step increase and amortization of those expenditures related to the financing.

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.

Q. Please explain the adjustments related to the financing and step increases.

A. Schedule SPS 1-2 contains 5 adjustments.

The first adjustment of $150,000 to Other Paid in Capital represents the equity contribution by the owners.

The second adjustment of $95,642 to Retained Earnings represents the net income impact of the various income statement transactions (i.e., revenue, operating and maintenance expenses, depreciation and amortization expenses, taxes and interest expense).

The third adjustment of $269,384 to Other Long Term Debt represents the net amount of certain accounts payable of $111,600 being added to other long term debt, of the additional debt financing of $160,524 and the first year repayment on the additional debt financing of ($2,740). Please note that the Company has already borrowed certain funds from the owners and such funds are already reflected in the 12/31/07 Other Long Term Debt balance.

The fourth adjustment of ($169,889) to Accounts Payable represents the reduction of accounts payable to a more reasonable level.

The fifth adjustment of $60,840 to Contribution in Aid of Construction represents the retirement of contributed assets of ($39,160) and the additional contribution of $100,000 from POASI. Please note that the Company has already received $200,000 of contributions from POASI, and such contributions are reflected in the 12/31/07 Contribution in Aid of Construction balance.

The sixth adjustment of $34,731 to Accumulated Amortization of CIAC represents the retirement of contributed assets of $39,160 and the half-year amortization of ($4,429) on the $300,000 of contributions.

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 the financing and step increases.

A. There are 6 adjustments to the Statement of Income.

The first adjustment of $187,073 to Operating Revenue represents the revenue requirement of $182,073 associated with the additions to plant and a rate case surcharge of $5,000 associated with recovery of half the financing and step increase expenditures over a one year period. The revenue requirement allows the Company to recover its investment, and earn a return on the unrecovered investment, and to recover its operating expenses.

The second adjustment of $10,000 to Operating and Maintenance expenses represents an estimate of the increased expenses of $5,000 associated with operating and maintaining the new additions to plant and the regulatory commission expenses of $5,000 associated with the recovery of half the financing and step increase expenditures over a one year period.

The third adjustment of $25,859 to Depreciation Expense represents the increase due to a half-year depreciation on the additions to plant.

The fourth adjustment of ($4,429) to Amortization of CIAC represents the increase due to a half-year amortization on the contribution in aid of construction.

The fifth adjustment to Taxes other than Income of $17,109 and Income Taxes of $27,112 represents the increase in state and local utility property taxes and the federal income and state business taxes.

The sixth adjustment to Interest Expense of $15,531 and Amortization of Debt Expense of $250 represents the first year interest expense on the additional debt financing and the first year amortization of the financing costs.

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

The actual 2004 – 2007 Year End Balances are reflected on this schedule. Also, the proformed 2004 balances approved in DW 05-137, the Company’s most recent rate case, are reflected. In addition, the proformed 2007 balances reflect the impact of the financing and step increases.

The related capitalization ratios are shown on the bottom half of the Schedule. Overall, in recent years, the Company's debt to equity position has remained relatively constant. In 2005 the Company's equity position decreased due to the 2005 net loss. Its debt position increased due to the purchase of three water systems. In part, due to the 2005 net loss, the Company petitioned the Commission for a general rate increase. In 2006, the Company's equity position decreased due to the 2006 net loss. Its debt position increased due to increased debt for system improvements. In 2007, the Company's equity position improved due to improved earnings as a result of a full year with new rates approved in 2006. Its debt position increased due to ongoing construction projects including some projects that are subject to this financing and step increases. The Company believes that the present equity and debt positions are reasonable and acceptable. However, with the owners' additional paid in capital of $150,000, along with the step increases, the Company equity and debt positions will improve. The additional equity and lower debt also improves cash flow and lessen the amount of the repayment of the debt.

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 capital financing, (2) the utilization of the funds for the construction of plant, (3) the repayment of the principal and interest on the loan, and (4) the receipt of revenue, less the increase in operating expenses from the step increases.

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 approval of the proposed step increases.

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

A. The sum of the additions to plant of $1,244,430, less the related accumulated depreciation of $25,859, results in net plant of $1,218,571. The sum of the CIAC of $300,000, less the related accumulated amortization of $4,429, results in net CIAC of $295,571. The addition of the net plant of $1,218,571, less the net CIAC of $295,571, results in a total additional rate base of $923,000. The Company is applying the cost of equity rate of 9.75% to determine the additional net operating income required of $89,993. In addition, the Company adds total increase in operating expenses of $92,080 to the additional net operating income required in order to determine the total additional revenue requirement of $182,073. The additional revenue requirement of $182,073 added to the 2007 actual operating revenues results in a total revenue requirement of $971,903.

Q. Would you please explain SPS-6?

A. SPS-6 is a schedule of plant and depreciation. Please note that the Company has shortened the lives of certain assets, i.e., structures, mains, services, etc., to better reflect its experience with many of its developer built water systems and to more closely match the period of recovery and the term of the financing.

Q. Would you please explain SPS-7?

A. SPS-7 is a schedule of CIAC and amortization of CIAC. Please note that the Company has also shortened the lives of the contributed asset, i.e., structures, mains, services, etc.

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

A. SPS-8 is a schedule of state utility property taxes, local property taxes, state business taxes, and federal income taxes. Please note that the Company is assuming that the assessed value for state and local property taxes is 65% of the total plant costs. The Company is also assuming that the local property tax rate is $15.00 per thousand dollars of assessed value. The local property tax rate varies from town to town. For state business tax purposes, the Company is utilizing the business profit tax rate of 8.5%. For federal income tax purposes, the Company is utilizing the federal income tax rate of 15%. It is possible that some of the income will be subject to higher federal tax rates, i.e., 25%.

Q. Would you please explain SPS-9, Source and Use of Funds?

A. SPS-9 is a schedule showing the total costs of the projects, the total CIAC, and the total of previously approved financing, resulting in the request of $779,930 additional financing. As previously mentioned, the financing will consist of an equity component of $150,000 and a debt component of $629,930. The uses of the funds are identified for each of the projects.

Q. Would you please explain SPS-10, Estimated Financing and Step Increase Costs?

A. SPS-10 is a schedule showing the estimated costs to pursue and obtain PUC approval of the financing and the step increases.

Q. What does the Company propose to do with the estimated costs of the financing and step increases?

A. The cost to pursue and obtain PUC approval of the financing and step increases will be deferred. The financing costs (one half of the total financing and step increase expenditures) will be added to the annual cost of the debt and reflected in the weighted, average interest rate. The step increase costs (one half of the total financing and step increase expenditures) will be recovered via a surcharge over a one year period

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 equity and debt financing of $779,930 and the related step increases amounting to an additional revenue requirement of $182,073.

Q. Does this conclude your testimony?

A. Yes.