STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
LAKES REGION WATER COMPANY
DW 11-

PETITION FOR APPROVAL OF FINANCING

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, 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 support Lakes Region Water Company's (Company or LRWC) financing requests and to prepare the financial exhibits and prefiled direct testimony which describes the financing and the financial schedules. In addition, I am prepared to testify in support of the financings.

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 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 PUC approval of pre-2010 unapproved debt and the 2010 unapproved debt. Also, the owners, Tom and Barbara Mason ("Masons") have decided to convert the Note Payable – Tom & Barbara Mason to additional paid in capital. The funds from the Masons allowed the Company to replace and add plant, pay past due payables and meet operating expenses.

Q. Please describe the pre2010 unapproved debt.

A. A brief description of the pre2010 unapproved debt is as follows:

2004 GEHL Finance – Mustang Excavator	$ 20,350
2006 Laconia Savings Bank Loan – Sierra	$ 40,918
2007 Key Equipment – Meter Reader	$ 9,049
2007 Citizens Bank Loan – Sierra	$ 13,479
2007 Santander (formerly Sovereign Bank) Loan	$ 32,670
2008 St. Mary's Bank Loan – Chevolet Colorada	$ 18,026
2008 Bank of America Capital Lease – Copier	$ 5,689
2009 St. Mary's Bank – Chevolet Colorada	$ 18,865
2009 GEHL Finance – Mustang Excavator	$ 26,200
Total Pre2010 Unapproved Debt	$185,246

Please see attached Schedule of Notes Payable, Accrued Interest, Interest Expense & Capitalized Interest for dates of issue and maturity, interest rate and 12/31/09 balance. Also, please note that in 2009 the Company was fined $110,000 and reached agreement with the NH Department of Correction ("NHDOC") to pay the $110,000 over a three year period. The Company is not requesting PUC approval of the NHDOC note payable because the Company's ratepayers are not paying the fine. In addition, at December 31, 2009 the amount reflected on the Company's books owed to the Masons amounted to $190,855. As part of the 2010 year end, the Company will convert this amount to additional paid in capital.

Q. How were the Pre2010 unapproved debt from other than the Masons used?

A. The Pre2010 unapproved debt from other than the Masons was used to purchase vehicles, a meter reader and a copier.

Q. How was the Pre2010 unapproved debt (to be converted to additional paid in capital at the 2010 year end) from the Masons used?

A. The Pre2010 unapproved debt from the Masons was used to fund various cash requirements including replacing plant, paying past due payables and meeting current operating requirements.

Q. Please provide more information on the funds provided by the Masons.

A. The Company has always relied on the Masons to fund short term cash requirements. When the amount owed to the Masons reached a certain level, the Company would borrow funds from a bank and pay down the amount owed to the Masons. More recently, the Company has been unable to borrow funds from a bank and has relied on the Masons to provide both debt and equity (in the form of additional paid in capital). If it wasn't for the Masons, the Company would not be able to meet its cash requirements.

Q. Was all of the Pre2010 unapproved debt used for utility operations?

A. Yes. All of the Pre2010 unapproved debt was used for utility operation. All of the debt used for plant is used and useful and providing service to customers.

Q. Please describe the 2010 debt.

A. A brief description of the 2010 debt is as follows:

2010 Ford Motor Credit – F350-XL Dump Truck	$ 31,301
Total 2010 Unapproved Debt	$ 31,301

Q. What are the terms and conditions on the Ford Motor Credit loan?

A. The term is 5 years and the interest rate is 7.89%. The monthly payments are $633.02.

Q. Did the Masons provide funds during 2010?

A. Yes.

Q. What was the nature of the funds?

A. The Masons have decided to have the funds provided by them treated as additional paid in capital.

Q. What were the funds used for?

A. The funds were used for plant additions and payment of past due payables.

Q. Was the 2010 debt and additional paid in capital used for utility operations?

A. Yes. All of the 2010 debt and additional paid in capital were used for utility operation. All of the debt and additional paid in capital used for plant is used and useful and providing service to customers.

Q. What is the total amount of the 2011 estimated capital expenditures?

A. The total amount of the 2011 estimated capital expenditures is $315,030. A brief description of the planned 2011 capital expenditures is shown on Schedule SPS-7.

Q. How does the Company plan to finance the estimated capital expenditures?

A. The Company plans to request additional paid in capital from the Masons.

Q. Does the Company anticipate incurring any debt in 2011?

A. No.

Q. Is the Company asking for PUC approval of the additional paid in capital to fund the 2011 capital improvements?

A. No. It is the Company's understanding that PUC approval is not required for the owners to provide additional paid in capital. However, as part of this financing, the Company wanted to disclose its financing plan for 2011.

Q. When does the Company expect that the 2011 projects will be completed?

A. The Company expects that the 2011 projects will be completed by the end of 2011.

Q. Please summarize the total amount to be financed by debt.

A. A summary is as follows:

Pre2010 Debt	$185,246
2010 Debt	31,301
2011 Debt	0
Total	$216,547

Q. What does the Company propose to do with the costs of the financing?

A. The cost to pursue and obtain PUC approval of the financing will be deferred and amortized over 20 years. The financing costs will be added to the annual cost of the debt and reflected in the weighted, average interest rate.

Q. Has the Company determined the impact of the financing and the additions to plant on the Company's financial statements?

A. Yes. I have prepared proforma financial statements identified as SPS 1-1 – SPS-11.

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, 2009 account balances. Column (d) identifies the 2010 adjustments. Column (e) identifies the 2010 adjustments. Column (f) reflects the adjusted December 31, 2009 account balances.

Q. Did the Company make any adjustments for the Pre2010 Debt?

A. No. There is no need to make any adjustments for the Pre2010 Debt because the transactions are already reflected in the 12/31/09 balances.

Q. Please explain the 2010 adjustments.

A. Schedule SPS 1-1 contains 4 2010 adjustments.

The first adjustment to Utility Plant for $20,301 represents the total 2010 additions less the total 2010 retirements.

The second adjustment to Accumulated Depreciation for ($48,439) represents the net of the 2010 retirements, the 2010 trade value and a half-year depreciation on the 2010 plant additions

The third adjustment to Cash for $ 2,444 is the net of the cash received from the Masons and Ford Credit and the anticipated revenue when such plant is placed in rate base and reflected in rates, less payment for the new plant, the payment of past due payables the repayment of the Ford Credit loan and the payment of increased taxes.

The fourth adjustment to Miscellaneous Deferred Debits for $3,800 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.

Q. Please explain the 2010 adjustments.

A. Schedule SPS 1-2 contains 4 adjustments.

The first adjustment to Other Paid in Capital for $75,000 represents the funds provided by the Masons during 2010.

The second adjustment to Retained Earnings for $7,999 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation expenses, taxes and interest expense).

The third adjustment to Other Long Term Debt for $25,985 represents the net amount of the borrowings of $31,301 and the first year repayment on the Ford Credit loan of $5,316.

The fourth adjustment to Accounts Payable for ($34,000) represents payment of past due payables.

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 2010 adjustments.

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

The first adjustment to Operating Revenue of $16,486 represents the anticipated revenue requirement associated with the additions to plant. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Depreciation Expense of $3,561 represents the increase due to a half-year depreciation on the 2010 additions to plant.

The third adjustment to Taxes other than Income of $609 and the fourth adjustment of $1,837 to Income Taxes represent the increase in state and local property taxes due to the increase in plant and the increase in federal income and state business taxes due to the increase in taxable income.

The fifth adjustment to Interest Expense of $2,280 and the sixth adjustment to Amortization of Debt Expense of $200 represent the first year interest expense on the Ford Credit loan and the first year amortization of the financing costs.

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

A. The 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. At 12/31/09 the Company has a reasonable capital structure at approximately 42% equity and 58% debt. The capital structure has improved recently due to the Masons' additional paid in capital of $724,430 to fund 2007 and 2008 capital improvements, offset by recent net losses. The additional 2010 debt and additional paid in capital improves the equity and debt balance.

Q. Please explain Schedule SPS-4, entitled Journal Entries – 2010 transactions.

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 borrowed funds and additional paid in capital, (2) the utilization of the funds for the additions to plant and payment of past due payables, (3) the repayment of the Ford Credit principal and interest, and (4) the anticipated revenue requirement when the plant is placed in rate base and reflected in rates.

Q. Would you like to explain SPS-5, entitled Journal Entries – 2011 transactions?

A. I will explain SPS-5 a little later after I explain the 2011 adjustments.

Q. Would you please explain SPS-6, 2010 Projected Plant and Depreciation?

SPS-6 is a schedule of plant and depreciation. Please note that the Company's depreciation expense reflects a half-year depreciation.

Q. Would you please explain SPS-7, 2011 Projected Plant and Depreciation?

A. Again, I will explain SPS-7 after I explain the 2011 adjustments.

Q. Would you please explain Schedule SPS 8, entitled Calculation of Revenue Requirement (for the 2010 Additions to Plant Financing)?

A. The 2010 additions to plant less the related accumulated depreciation result in a rate base of $74,740. The Company is applying the cost of the debt of 9.26% to determine the additional net operating income required. In addition, the Company adds a full year depreciation and taxes to the additional net operating income required in order to determine the total additional revenue requirement of $16,486.

Q. How does the Company propose to repay the Pre2010 and 2010 debt?

A. The Company anticipates that the additions to plant will be added to rate base and reflected in rates as part of DW 10-141. The Company's ability to repay the Pre2010 and 2010 debt is dependant on PUC approval of an increase in rates in DW 10-141.

Q. Please explain SPS-9, Calculation of Revenue Requirement (for 2011 additions to plant).

A. I will explain SPS-9 along with SPS 5 & 7 after I explain the 2011 adjustments.

Q. Please explain SPS-10, Source and Use of the 2010 Funds.

A. The source of the 2010 funds is from the Masons and Ford Credit. The use of the 2010 funds is for additions to plant and payment of past due payables.

Q. Please explain the 2011 adjustments.

A. Schedule SPS 1-1 contains 4 2011 adjustments.

The first adjustment to Utility Plant for $278,063 represents the total 2011 additions less the total 2011 retirements.

The second adjustment to Accumulated Depreciation for ($30,720) represents the net of the 2011 retirements and a half-year depreciation on the 2011 plant additions

The third adjustment to Cash for $42,600 is the net of the cash received from the Masons and the anticipated revenue when such plant is placed in rate base and reflected in rates, less payment for the new plant and the payment of increased taxes.

The fourth adjustment to Miscellaneous Deferred Debits for ($200) is the amortization of the debt expense 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.

Q. Please explain the 2011 adjustments.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Other Paid in Capital for $315,030 represents the funds provided by the Masons during 2011 to fund capital improvements.

The second adjustment to Retained Earnings for $36,153 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation expenses, taxes and interest expense).

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 2011 adjustments.

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

The first adjustment to Operating Revenue of $68,527 represents the anticipated revenue requirement associated with the additions to plant. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Operating and Maintenance Expenses for $10,000 represents increased treatment costs.

The third adjustment to Depreciation Expense of $6,247 represents the increase due to a half-year depreciation on the 2011 additions to plant.

The fourth adjustment to Taxes other than Income of $4,002 and the fifth adjustment of $11,925 to Income Taxes represent the increase in state and local property taxes due to the increase in plant and the increase in federal income and state business taxes due to the increase in taxable income.

The sixth adjustment to Amortization of Debt Expense of $200 represents the second year amortization of the financing costs.

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

A. The 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. At 12/31/09 the Company had a reasonable capital structure at approximately 42% equity and 58% debt. The capital structure has improved recently due to the Masons' additional paid in capital of $724,430 to fund 2007 and 2008 capital improvements, offset by recent net losses. The additional 2011 additional paid in capital and earnings improve the equity and debt balance.

Q. Please explain Schedule SPS-5, entitled Journal Entries – 2011 transactions.

A. Schedule SPS-5 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the additional paid in capital, (2) the utilization of the funds for the additions to plant and (3) the anticipated revenue requirement when the plant is placed in rate base and reflected in rates.

Q. Would you please explain SPS-7, 2011 Projected Plant and Depreciation?

A. SPS-7 is a schedule of plant and depreciation. Please note that the Company's depreciation expense reflects a half-year depreciation.

Q. Would you please explain Schedule SPS 9, entitled Calculation of Revenue Requirement (for the 2011 Additions to Plant Financing)?

A. The 2011 additions to plant less the related accumulated depreciation result in a rate base of $308,783. The Company is applying a rate of return of 9.75% to determine the additional net operating income required. In addition, the Company adds a full year depreciation, expenses and taxes to the additional net operating income required in order to determine the total additional revenue requirement of $68,527.

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

A. The Company anticipates that the additions to plant will be added to rate base and reflected in rates. The Company will consult with the PUC Staff to determine how best to incorporate the 2011 additions into rate base and rates.

Q. Please explain SPS-10, Source and Use of the 2011 Funds.

A. The source of the 2011 funds is from the Masons. The use of the 2011 funds is for additions to plant.

Q. What are the estimated financing costs as shown on SPS-11?

A. The estimated financing costs amount to $4,000. The financing costs are those costs anticipated to be incurred in preparing the financing petition, testimony and schedules and obtaining PUC approval.

Q. Why should the Commission approve the Pre2010 debt and 2010 debt?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The Pre2010 debt was for utility assets that are used and useful and providing service to customers. The 2010 debt similarly is for utility assets that are used and useful and are providing service to customers.

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 Pre2010 debt and the 2010 debt amounting to $216,547.

Q. Does this conclude your testimony?

A. Yes.