

STEPHEN P. ST. CYR & ASSOC.

1 17 Sky Oaks Drive, Biddeford, ME 04005

2 PHONE: (207) 282-5222

FAX: (207) 282-5225

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

3

4

5

6

7

Direct Testimony of Stephen P. St. Cyr in DW 10-159

8

9 Q. Please state your name and address.

10

11 A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive,
12 Biddeford, Me. 04005.

13

14 Q. Please state your present employment position and summarize your professional
15 and educational background.

16

17 A. I am presently employed by St. Cyr & Associates, which provides accounting,
18 tax, management and regulatory services. The Company devotes a significant
19 portion of the practice to serving utilities. The Company has a number of
20 regulated water utilities among its clientele. I have prepared and presented a
21 number of rate case filings before the New Hampshire Public Utilities
22 Commission. Prior to establishing St. Cyr & Associates, I worked in the utility
23 industry for 16 years, holding various managerial accounting and regulatory
24 positions. I have a Business Administration degree with a concentration in
25 accounting from Northeastern University in Boston, Ma. I obtained my CPA
26 certificate in Maryland.

27

28 Q. Is St. Cyr & Associates presently providing services to West Swanzey Water
29 Company ("Company")?

30

31 A. Yes. St. Cyr & Associates prepared the various exhibits and supporting schedules
32 and prepared the written testimony and other rate case filing requirements. In
33 addition, St. Cyr & Associates assists the Company in preparing its year end
34 financial statements, prepares the tax returns and prepares the PUC Annual
35 Report.

36

37 Q. Are you familiar with the pending rate application of the Company and with the
38 various exhibits submitted as Schedules 1 through 4 inclusive, with related pages
39 and attachments?

40

41 A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of
42 the Company.

43

44 Q. What is the test year that the Company is using in this filing?

45

46 A. The Company is utilizing the twelve months ended December 31, 2009.

STEPHEN P. ST. CYR & ASSOC.

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

117 Sky Oaks Drive, Biddeford, ME 04005

2PHONE: (207) 282-5222

FAX: (207) 282-5225

3

4

5

6

7 Q. Before you explain the schedules, please provide a brief overview of the
8 Company.

9

10 A. The Company was formed in 1986 and became a utility in 1988. It has three
11 wells, 2 pump stations, 8,700 feet of mains, 75 non-fire services, 5 fire services
12 and 75 meters. At December 31, 2009 the Company served 76 customers. In
13 recent years its investment in plant has been minimal. The Company has no plans
14 to replace and/or add plant. Its long term debt continues to decline. The
15 Company's operating and maintenance expenses have been stable. The Company
16 has had net losses for a number of years. In 2009 its net loss was \$5,898. The
17 2009 net loss was due to a decline in revenues and an increase in property taxes.
18 The continuation of the losses is not acceptable. With a relatively modest
19 increase in rates, the Company should be able to eliminate the losses and continue
20 to provide service to its customers at fair and reasonable rates.

21

22 Q. Is there anything else prior to summarizing the schedules?

23

24 A. No.

25

26 Q. Then, would you please summarize the schedules?

27

28 A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test
29 Year ended December 31, 2009," summarizes the supporting schedules. The
30 actual revenue deficiency for the Company for the test year amounts to \$8,439. It
31 is based upon an actual test year with a beginning and ending average rate base of
32 \$197,682 as summarized in Schedule 3. The Company's actual rate of return is
33 7.21% for the actual test year. The rate of return of 7.21%, when multiplied by
34 the rate base of \$197,682, results in an operating income requirement of \$14,246.
35 As shown on Schedule 1, the actual net operating income (loss) for the Company
36 for the test year was \$5,807. The operating income required, less the net
37 operating income (loss), results in an operating income deficiency before taxes of
38 \$8,439. The Company did not calculate the tax effect of the revenue deficiency,
39 resulting in a revenue deficiency for the Company of \$8,439.

40

41 The proforma revenue deficiency for the Company for the test year amounts to
42 zero. It is based upon a proformed test year rate base of \$197,682, as summarized
43 in Schedule 3. The Company is utilizing a proformed rate of return of 7.21% for
44 the proformed test year. The proformed rate of return of 7.21% when multiplied
45 by the rate base of \$197,682, results in an operating net income requirement of
46 \$14,246.

STEPHEN P. ST. CYR & ASSOC.

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

1 17 Sky Oaks Drive, Biddeford, ME 04005

2 PHONE: (207) 282-5222

FAX: (207) 282-5225

3

4

5

6

7

As shown on Schedule 1, the proformed net operating income for the Company for the test year was \$14,246. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for the Company of zero. Please note that the Company has made no adjustments to rate base and rate of return.

10

11

12

13

Q. Would you please explain Schedule 1 and supporting Schedule 1A?

14

15

A. Schedule 1 reflects the Company's Statement of Income. Column b shows the actual 2009 year end balance for the Company (as reported to the PUC in its 2009 PUC Annual Report). Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A, 1B and 1C. Column d shows the proforma 2009 year end balance. Column e and Column f are actual results for 2008 and 2007, respectively.

16

17

18

19

20

21

22

23

During the twelve months ended December 31, 2009, the actual operating revenues amounted to \$59,116, a decrease of \$2,426 over 2008. The decrease is due to less water being sold. At December 31, 2009 the Company had 76 customers. Its customers consumed 8,373 thousand gallons of water, a decrease of 578 thousand gallons of water compared to 2008.

24

25

26

27

28

29

The Company's total operating expenses amounted to \$53,309, an increase of \$3,025 over 2008. The significant increase in total operating expenses was due to an increase in property taxes. The 2009 Net Operating Income (Loss) amounted to \$5,807. Net Income (Loss) for 2009 was (\$5,898).

30

31

32

33

34

The Company made 1 proforma adjustments to operating revenues totaling \$10,126 and 3 proforma adjustments to operating expenses totaling \$1,687. The specific proforma adjustments are identified on the Statement of Income – Proforma Adjustments (Schedule 1A). A brief explanation is as follows:

35

36

37

38

39

Proforma Adjustment to Revenues

40

41

Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - \$10,126

42

43

44

45

The Company has increased test revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

46

46

STEPHEN P. ST. CYR & ASSOC.

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

1 17 Sky Oaks Drive, Biddeford, ME 04005

2 PHONE: (207) 282-5222

FAX: (207) 282-5225

3

4

5

6

7

Proforma Adjustments to Expense

8

9

Taxes other than Income –Town of Swanze Property Taxes - \$723.

10

11

12

13

14

15

16

In 2009 the Company incurred \$5,493 in Town of Swanze property taxes. The amount expensed in 2009 was \$3,000 more than the 2008 expense. The December 4, 2009 real estate tax bill was \$6,216. The proforma adjustment adjusts the 2009 expense to the actual real estate tax bill. As such, the Company has prepared a proforma adjustment for \$723.

17

18

Federal Income and State Business Taxes - \$964.

19

20

21

22

23

24

25

26

27

With the proposed increase in revenue offset by the proposed increase in expenses, there is also a related increase in the federal income and state business taxes. The increase in federal income taxes represents the additional tax liability due to the increase in taxable income. The increase in state business taxes represents the additional tax liability due to the increase in gross profits. The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

28

29

The total proforma adjustments to Operating Expenses amounts to \$1,687.

30

31

32

33

34

35

36

37

38

39

40

Q. Does that complete your description of the proforma adjustments to revenues and expenses?

41

42

43

44

45

46

A. Yes.

STEPHEN P. ST. CYR & ASSOC.

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

1 17 Sky Oaks Drive, Biddeford, ME 04005

2 PHONE: (207) 282-5222

FAX: (207) 282-5225

3

4

5

6

7 Q. Please describe Schedule 2, the Balance Sheet.

8

9 A. The Company has \$301,699 total assets at the end of 2009. \$265,278 of the
10 \$301,699 total assets is net plant, most of which is completed and providing
11 service to customers. The Company has \$37,245 of total equity capital. The
12 Company incurred a significant loss in 2009, which reduced retained earning and
13 total equity. The Company has \$175,535 of long term debt. The long term debt
14 balance has decreased from 2008 due to payment of principal on the two
15 outstanding loans. A portion of the plant has been contributed.

16

17 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
18 schedule.

19

20 A. Schedule 3 reflects the Company's Rate Base for both the average year end
21 balance and the proforma year end balance. Column b shows the actual 2009 year
22 end balance. Column c shows the actual 2008 year end balance. Column d shows
23 the average year end balance. Column e shows the proforma adjustments.
24 Column f shows the proforma year end balance. The cash working capital
25 balances are further supported by Schedules 3A and 3B.

26

27 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
28 plus Cash Working Capital, Material and Supplies, Prepayments less net
29 Contributions in Aid of Construction.

30

31 The Total Proforma Year End Balance amounts to \$197,682.

32

33 Q. Would you please explain Schedule 3A, Rate Base – Proforma Adjustments?

34

35 A. The Company made no adjustments to rate base including no adjustment to cash
36 working capital.

37

38 Q. Please explain Schedule 3B.

39

40 A. Schedule 3B shows the computation of cash working capital for both the 2009
41 Proforma Amount and the 2009 Actual Amount. The proforma cash working
42 capital is based on the proforma test year operation and maintenance expenses.

43

44

45

46

STEPHEN P. ST. CYR & ASSOC.

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

1 17 Sky Oaks Drive, Biddeford, ME 04005

2 PHONE: (207) 282-5222

FAX: (207) 282-5225

3

4

5

6

7

Q. Would you please explain Schedule 4, Rate of Return Information?

8

9

A. Schedule 4 reflects the overall rate of return for both the proforma test year and the actual test year. The weighted average rate of return for the actual test year is 7.21%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return. The Company made no adjustments to the actual rate of return. As such, the weighted average rate of return for the proforma test year is 7.21%.

10

11

12

13

14

15

16

17

18

19

20

21

22

Schedule 4 also reflects both the capital structure and the capital ratios. The Company has provided the capital structure for the actual test year and the proforma test year. It has also provided the actual capital structure for 2008 and 2007. Please note that the Company's debt to equity ratio has remained relatively constant.

23

24

25

26

27

28

29

In addition, Schedule 4 reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/09 the Company has \$175,535 of outstanding long term debt. Its 2009 total interest expense is \$11,703. The 2009 actual cost of debt was 6.67%. There was no change to the long term debt, interest expense and financing costs for the proforma test year.

30

31

Q. Please explain the Report of Proposed Rate Changes.

32

33

34

A. If the Company filing is approved as submitted, its total water Operating Revenues will amount to \$10,126.

35

36

37

Q. Is the Company proposing any changes to the methodology used in calculating the rates?

38

39

40

41

A. No. The Company is generally using the same methodology. It is applying the rate increase to the various components of rates. The Company is willing to review the rate design with the PUC Staff.

42

43

Q. When is the Company proposing that the new rates be effective?

44

45

46

A. The proposed effective date is October 1, 2010 so that the Company can begin to bill the new rates the first week of January 2011 for the fourth quarter of 2010.

STEPHEN P. ST. CYR & ASSOC.

117 Sky Oaks Drive, Biddeford, ME 04005

2PHONE: (207) 282-5222

FAX: (207) 282-5225

Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

3

4

5

6

7

Q. Is there anything else that the Company would like to address?

8

9

A. Yes. The Company has decided not to pursue temporary rates due to the additional costs and additional time to pursue the rate change. The Company respectfully requests that the Commission take that into consideration when establishing the effective date of the new rates.

10

11

12

13

14

Q. Is there any other rate matter that you would like to discuss?

15

16

A. Yes. The Company has engaged the services of Stephen P. St. Cyr & Associates to prepare the rate filing and pursue the rate increase throughout the rate case proceeding. St. Cyr & Associates and the Company have agreed on a per hour fee of \$105.00 for each hour of work performed. The Company and I believe that the fees are fair and reasonable. At this point, the Company does not anticipate utilizing outside legal council.

17

18

19

20

21

22

23

Q. Would you please summarize what the Company is requesting in its rate filing?

24

25

A. The Company respectfully requests that the Commissioners (1) approve an increase in annual revenues of \$10,126 for permanent rates.

26

27

28

Q. Is there anything further that you would like to discuss?

29

30

A. No, there is nothing further.

31

32

Q. Does this conclude your testimony?

33

34

A. Yes.

35

36

37

38

SPSt. Cyr

39

09/03/10

40