STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY

DW 10-

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 supports Hampstead Area Water Company's (Company or HAWC) financing request 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 financing.

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 borrow funds from Lewis Builders Development, Inc., an affiliated company (Lewis), which will allow it to finance the construction of a new pumphouse for the Settlers Ridge wells in Atkinson, New Hampshire.

Q. Please describe the wells at Settlers Ridge.

A. HAWC drilled and installed new wells in Atkinson at the Settlers Ridge development as part of its Hydrology Study in order to provide additional water sources for the HAWC core system. The cost of the construction is detailed on Exhibit 1 and is estimated to be $536,505.00.

Q. Please summarize the total costs to be financed.

A. A summary is as follows:

Pump House & Site Work	$64,675.00
Wells	103,605.00
Supply Mains	$38,350.00
Pumping Equipment	$171,275.00
Water Treatment	$68,900.00
Distribution Storage	$89,700.00
Miscellaneous	$0.00
Total	$536,505.00

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

A. The wells are installed and the pumphouse will be completed by the end of the year.

Q. How does the Company wish to structure the financing requested:

A. The Company proposes to have a Promissory Note with a term as proposed would be Twenty (20) years. The interest rate would be Five and 50/100th % (2.25 % above the prime rate of 3.25 %). The Company is assuming that the loan begins January 1, 2011.

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

A. The total costs of $536,505.00 will be financed by Lewis.

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. 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 8.

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 Lewis financing adjustments to the December 31, 2009 account balances. Column (e) reflects the adjusted December 31, 2009 account balances.

Q. Please explain the adjustments related to 2010 Lewis Financing.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $536,505 represents the total additions to plant in service for the costs of the wells and pumphouse. There are no retirements associated with the new plant.

The second adjustment to Accumulated Depreciation for $14,748 represents a half-year depreciation on the $ 536,505 of plant additions

The third adjustment to Cash for $ 9,906 is the net of the cash received from the Lewis financing and the anticipated revenue when such plant is placed in rate base and reflected in rates less payment for the new plant, the repayment of the new 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 adjustments related to the 2010 Lewis Financing.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for $14,115 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 $521,348 represents the net amount of the borrowings of $536,505 and the first year repayment on the loan of $15,157.

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 2010 Lewis Financing.

A. There are 4 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of $68,705 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 $14,748 represents the increase due to a half-year depreciation on the additions to plant.

The third adjustment to Taxes other than Income of $10,294 and Income Taxes of $218 represents the increase in state and local property taxes and the state business enterprise tax.

The fourth adjustment to Interest Expense of $29,130 and Amortization of Debt Expense of $200 represents 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 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. The Company's debt to equity position is heavily weighted towards debt due to its negative equity position. The Company's owner has made significant equity contribution in recent years.

Q. Should a debt to equity ratio that is heavily weighted toward debt be of concern to the Commission?

A. Yes. While a debt to equity ratio at this level would be unusual for many investor owned utilities, the nature of Hampstead Area Water Company is different from the typical investor owned utility. In this case, the owner of the Company is also the owner of the affiliated company which holds the existing debt. The owner has the resources to provide additional capital if the Company needs additional capital in order to meet its obligations. By financing the proposed projects with Lewis Builders rather than with higher cost bank debt or additional equity, the Company will be able to keep the ultimate cost of the projects down for itself and its customers.

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 borrowing of funds, (2) the utilization of the funds for the additions to plant, (3) the repayment of the principal and interest on the loan, 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?

A. SPS-5 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 6, entitled Calculation of Revenue Requirement?

A. The 2011 additions to plant less the related accumulated depreciation result in a rate base of $521,757. The Company is applying the cost of the debt of 5.50% 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 $68,705.

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

A. The Company anticipates that the additions to plant will be added to rate base and reflected in rates as part of a future rate filing. The Company's ability to repay the new debt will be dependant on PUC approval of an increase in rates in a future rate proceeding.

Q. Please explain SPS-7, Source and Use of Funds.

A. The source of the funds is from Lewis Builders Development, Inc., an affiliated company. The use of the funds is for the development of the wells, the construction of the pumphouse and the connection to the water system.

Q. What are the estimated financing costs as shown on SPS-8?

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

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 Pumphouse installation is necessary in order to continue to provide adequate water supply to the HAWC core system.

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 2010 Lewis Financing of $536,505.00, under the terms stated previously.

Q. Does this conclude your testimony?

A. Yes.

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