#5

BEFORE THE NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Lakes Region Water Company

Petition for Rate Increase

Docket No. DW 15 – 209

DIRECT TESTIMONY OF
STEPHEN P. ST. CYR

July 31, 2015

EXHIBIT #8 DW 15-209

Q. Please state your name and address.

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

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

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

Q. Is St. Cyr & Associates presently providing services to Lakes Region Water Company ("LRWC" or "Company")?

A. Yes. St. Cyr & Associates prepared the various exhibits, oversaw the preparation of the supporting schedules, prepared the written testimony and prepared other rate case filing requirements. In addition, St. Cyr & Associates prepares the Company's PUC Annual Report.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through 10 inclusive, with related pages and attachments?

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

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

A. The Company is utilizing the twelve months ended December 31, 2014.

Q. Before you explain the schedules, please provide a brief overview of the Company and some recent developments pertaining to the Company.

A. On July 13, 2012 the Public Utilities Commission ("PUC") issued Order No. 25,392 in Dockets DW-07-105, DW 10-043, DW 10-141 and DW 11-021 approving permanent rates, an affiliate agreement (with modifications) and financings and recommending management enhancements.

In 2014 the Company placed into service the pump house, wells, pumps and mains located on "Mt. Roberts" for its Paradise Shores division. The investment was funded with additional paid in capital from the sole shareholder, Barbara Mason. Mrs. Mason still owns the Mt. Roberts land. The Company also replaced 1,600 feet of mains at its Indian Mound division. In addition, the Company replaced an excavator, one of its pickup trucks and pumps, mains, services and meters. A total of $608,475 was added to plant, all of which is non-revenue producing. Finally, the Company sold 2 lots in its Hidden Valley division, which was authorized by the PUC in Order No. 25,619.

In 2015 the Company intends to purchase the "Mt. Roberts" land from its sole shareholder for $415,906 with 100% debt financing from a bank. Also, the Company intends to complete the Indian Mound project including a new pump house, well improvements, pump replacements and installation of treatment for estimated remaining costs of $129,775. The financing of the Indian Mound project was approved by the PUC in Order No. 25,753. In addition, the Company is planning to update its computer financial software at a cost of $35,000. All of the planned additions to plant amounting to $580,681 are non-revenue producing.

Q. Is there anything else that you would like to include before addressing the schedules?

A. Yes. First, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company's belief is based on the fact that the amount of the assets are known and measurable and all the 2014 assets are fully in use for the customers' benefit at December 31, 2014.

Second, the Company believes that the assets placed in service in 2015 should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. The Company's belief is based again on the fact that the amount of the assets are known and measurable and all the 2015 assets will be fully in use for customers' benefit before the end of the proceeding.

Third, if the Company is not allowed the 2014 and 2015 assets to be fully reflected, it loses the related revenue between now and the next rate case. Even in the next rate case, it will not recover the lost revenue between now and then. It will only earn a return on the reduced net asset value, not the full asset value.

Fourth, all additions in 2014 and 2015 are non-revenue producing; no new customers or revenue source will be added as a result of these improvements.

Finally, in Order No. 25,391, the PUC approved a year end rate base indicating that "though we traditionally employ a 13 month average for rate base additions, we will make a one-time exception and utilize the year end rate base for certain non-revenue producing plant in service, as Lakes Region requested." The Company respectfully requests approval of a year end rate base.

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

A. No.

Q. Then, would you please summarize the schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2014," summarizes the supporting schedules. The actual revenue deficiency for the LRWC for the test year amounts to $119,976. It is based upon an actual test year with a 13 month average rate base of $2,637,330 as summarized in Schedule 3, column o. LRWC's actual rate of return is 8.19% for the actual test year. The rate of return of 8.19%, when multiplied by the rate base of $2,637,330, results in an operating income requirement of $215,904. As shown on Schedule 1, column b, line 11, the actual net operating income for the Company for the test year was $95,928. The operating income required, less the net operating income, results in an operating income deficiency before taxes of $119,976.

The Company did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for the Company of $119,976. It should be noted that the 2014 actual financial data includes the increase of a full year of revenue associated with DW 10-141, plus the increase in revenue associated with the manager's salaries and benefits hired on March 12, 2013 and approved by the PUC in Order No. 25,496 dated April 22, 2013.

The proforma revenue deficiency for the Company for the test year amounts to zero. It is based upon a proformed test year rate base of $3,387,973, as summarized in Schedule 3, column q. The Company is utilizing a proformed rate of return of 8.68% for the proformed test year. The proformed rate of return of 8.68% when multiplied by the rate base of $3,387,973, results in an operating net income requirement of $294,233. As shown on Schedule 1, column d, the proformed net operating income for the Company for the test year was $294,233. 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.

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

A. Schedule 1 reflects the Company's Operating Income Statement. Column b shows the actual test year results for the Company (as reported to the PUC in its

2014 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 – 1E. Column d shows the proforma test year results. Column e and Column f are actual results for 2013 and 2012, respectively.

During the twelve months ended December 31, 2014, the actual operating revenues amounted to $1,316,010, an increase of $45,093 over 2013. The significant increases are due to an increase in miscellaneous service and water sales. The Company water sales from POASI decreased $10,153 due to a decrease of 74,500 cf in volume and a rate decrease of $0.60786 per hundred cf over 2013. At December 31, 2014 the Company had 1,667 customers. The Company has minimal growth in the number of customers during 2014. LRWC's customers consumed 46,834 thousand gallons of water, a slight decrease of 177 thousand gallons of water from 2013.

LRWC's total operating expenses amounted to $1,220,082, an increase of $139,262 over 2013. The increase in total operating expenses was due to increases in operation and maintenance expenses and depreciation expenses, offset by a decrease in income taxes. The 2014 Net Operating Income amounted to $95,928. Net Income for 2014 was $59,157.

The Company has made 3 proforma adjustments to operating revenues totaling $385,745. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

Proforma Adjustment to Revenues

1. Sales of Water – Special Contract - Property Owners Association at Swissevale, Inc. ("POASI") - $65,754.

The Company has a water supply agreement with POASI. The Agreement allows the Company to adjust the amount charged to POASI based on its actual costs to provide service to them. In 2014, the Company recorded revenues of $136,526. In 2015, after adjusting the amount for 2014 actual costs, the Company anticipates revenues of $202,280, an increase of $65,754. While the Company anticipates the increase in revenues from the POASI agreement, such revenues will be offset by a like amount of decreased revenues from other customers.

2. Rate Case Surcharge – ($77,283)

The Company is reducing test revenue by the amount of revenue associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year expenses by the amount of regulatory expenses associated with the recovery of approved rate case expenditures

3. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $398,274

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.

The Total Proforma Adjustments to Operating Revenue amounts to $386,745.

Proforma Adjustments to Expense

1. Operating and Maintenance Expenses - Wages – Full Year - $22,274

During the test year, Employee #9 joined the Company on 08/25/14. In order to fully reflect this employee's total annual wages, the Company has added $22,274. As such, the Company prepared a proforma adjustment for the increase in wages of $22,274.

2. Operating and Maintenance Expenses - Wages – 4% Pay Increase - $15,270

During the test year the Company expensed $359,457 of wages. With the adjustment to wages from proforma 1, the adjusted test year wages amount to $381,731 ($359,457 + $22,274). Effective 08/15/15 the Company anticipates granting an overall 4% pay increase. The pay increase is being granted due to inflation and performance reviews. The change in wages amounts to $15,270. Also, see Schedule 1C.

3 Operating and Maintenance Expenses - Pension - $16,000

The Company is in the process of establishing a pension benefit for its employees. The anticipated pension cost is $16,000.

4 Operating and Maintenance Expense – Water Treatment Expenses – Water Tests - $3,272

In 2014 the Company incurred $11,908 of water tests. Certain water tests are not performed annually but rather once every two years or once every three years. As such, any one year does not fully reflect the costs of water tests. The Company believes that a 3 year average is an appropriate measure of likely water tests costs. The average of water tests costs for 2014 – 2012 is $15,180 ($11,908 + $13,452 + $20,180 / 3). The Company prepared a proforma adjustment of $3,272 to water treatment expenses.

5 Operating and Maintenance Expense – Bad Debts – ($9,076)

In 2014 the Company incurred $18,076 of bad debt. The significant increase in bad debt expense was due to not promptly writing off uncollectable balances in 2013 resulting in 2014 reflecting 2 years of write-offs instead on 1 year. The Company believes that a 3 year average is an appropriate measure of likely bad debt expenses. The average of bad debt expense for 2014 – 2012 is $9,000 ($18,076 + $1,448 + $7,477 / 3). The Company prepared a proforma adjustment of ($9,076) to bad debt expenses.

6 Operating and Maintenance Expense – Accounting – $39,178

In 2014 the Company incurred $43,206 for accounting related services. Also, in 2014, the Company wrote off the discounted portion of $39,178 accepted by Stephen P. St. Cyr & Associates and Norman E. Roberge in settlement of past due amounts. The write off reduced accounting costs for the test year. This proforma adjustment restores the amount to what the Company considers normal and reoccurring accounting expenses. As such, the Company prepared a proforma adjustment for $39,178.

7 Operating and Maintenance Expense – Legal – ($13,317)

In 2014 the Company incurred legal expenses of $29,017. The nature of the legal expenses were the land sale in Hidden Valley, clearing titles for CoBank loans and assisting in the vendor write-down negotiations in addition to the normal corporate work. The Company believes that a 3 year average is an appropriate measure of likely legal expenses. The average of legal expense for 2014 – 2012 is $15,700 ($29,017 + $809 + $17,274 / 3). The Company prepared a proforma adjustment of ($13,317) to legal expenses.

8. Operating and Maintenance – Regulatory Commission – ($77,389)

The Company is reducing test expenses by the amount of regulatory commission expenses associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year revenues by the amount of rate case expenditure surcharge revenue.

9. Operating and Maintenance – Regulatory Commission – $9,980

In DW 07-105, Investigation into Quality of Service, the Company incurred $81,921 of legal and accounting costs. Such expenditures were approved by the PUC in Order No. 25,655. Subsequent to the PUC's approval, certain legal and accounting service providers agreed to a reduction of $32,019 of their expenditures in exchange for payment of the remaining balance of $49,902. The PUC approved recovery of the $49,902 over a 60 month period as part of the Company's next rate case. As such, the Company prepared a proforma adjustment for $9,980 ($49,902 / 5 years).

10. Operating and Maintenance Expenses – Office Expenses – ($4,956)

In 2014 the Company incurred expenses associated with painting the office, purchasing small office equipment and a new office pressure tank of $4,956. Because the nature of such expenditures are one time expenses, the Company is eliminating them from test year expenses. As such, the Company prepared a proforma adjustment for ($4,956).

Total Proforma Adjustments to O&M Expenses are $1,236.

11/12. Depreciation Expense - $33,334.

The Company is proposing to include the additional half year depreciation on the 2014 additions to plant. The amount of the depreciation expense increase is $18,279. Also, see Schedule 7, column (f), for the calculation of the additional half year depreciation.

The Company is also proposing to include the full year depreciation on the 2015 specific and general additions to plant. The amount of the depreciation expense increase is $15,055 ($12,341 + $2,714). Also, see Schedules 9, column (g) & 10, column (f), for the calculation of the annual depreciation for 2015 specific and general additions to plant.

13. Amortization of CIAC - ($218).

The Company is proposing to include the additional half year amortization on CIAC on the 2014 contributed additions to plant. The amount of the depreciation expense increase is ($218).

14/15. Taxes other than Income – State Utility Property Taxes - $7,208.

In 2014 the Company incurred $18,558 in state utility property taxes. With the 2014 and 2015 addition to plant, the Company anticipates that the 2015 state utility property taxes will amount to $25,766. As such, the Company has prepared a proforma adjustment for $7,208. See column (h) on Schedules 7, 9 & 10 for the calculation of additional state utility property taxes.

16/17. Taxes other than Income – Municipal Property Taxes - $7,852.

In 2014 the Company incurred $33,873 in municipal property taxes. With the 2014 and 2015 addition to plant, the Company anticipates that the 2015 municipal property taxes will amount to $41,725. As such, the Company has prepared a proforma adjustment for $7,852. See columns (i) on Schedules 7 & 9 & column (i) on Schedule 10 for the calculation of additional municipal utility property taxes.

18/19. Taxes other than Income - Payroll Taxes - $2,872

With the proposed increase in wages (in proforma adjustments 1 & 2), there is also a related increase in the payroll taxes. In 2014 the Company incurred $27,318 of payroll taxes. With the proposed increase in net wages, the Company anticipates that its 2015 payroll taxes will amount to $30,190. As such, the Company increased payroll taxes by the difference of $2,872. Also, see Schedule 1C, columns (h) & (i).

20/21. Federal Income and State Business Taxes - $134,884

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 (Schedule 5). A further explanation of the federal taxes will be provided as I describe Schedule 5 later in my testimony.

The total proforma adjustments to Operating Expenses amounts to $188,440.

The net of the proforma adjustments to operating revenue ($386,745) and the proforma adjustments to operating expenses ($188,440) results in net proforma adjustment of $198,305. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $294,233. The proforma test year net operating income of $294,233 allows the Company to cover its expenses and earn a 8.68% return on its investments.

22. Interest Expense - $5,490.

While not effecting net operating income, the Company also made proforma adjustments to interest expense for the elimination of the interest on the TDBank loan and the CoBank lineof credit, for the increase in the 2014 CoBank loans and for the increase in the 2015 CoBank loan and Mt. Roberts loan.

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

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1D provides a breakdown of operating expenses for 2014, the proforma adjustments, the proforma 2014, 2013 & 2012. Schedule 1E shows the proforma adjustment of the gain on the sale on Hidden Valley land.

Q. Please describe Schedule 2, the Balance Sheet and the supporting schedules.

A. The Company has $3,767,082 total assets at the end of 2014. $3,472,737 of the $3,767,082 total assets is net utility plant, most of which is completed and providing service to customers. In 2014 the Company added $608,475 of plant in service, offset by $73,708 of plant retired. Most significantly, it added $406,976 of new wells, pumps, mains and improvements to its Paradise Shores water system in conjunction with the Mt. Roberts property. Please note that the value of the land did not go into service in 2014 but is proformed into service in 2015. The Company also added $44,579 of mostly mains at its Indian Mound water system and $105,603 of vehicles and equipment.

The Company has $1,840,647 of total equity capital. The owner added $271,932 of additional paid in capital for land improvements, wells, pumps and mains located on Mt. Roberts, which were placed into service during 2014. The Company had net income of $59,157 in 2014, a significant decline from $135,772 in 2013. The Company has $919,678 of long term debt. In 2014 the Company financed the repayment of its TD Banknorth notes and the payment of a significant amount of past due accounts payables with CoBank. The long term debt balance increased from $318,098 to $919,678 from 2013 to 2014. Accounts payable decreased $377,129 from $573,682 to $196,553.

The Company has also provided Schedule 2.1, which shows utility plant and accumulated depreciation by account for 2014, 2013 and 2012. Schedule 2.2 shows plant acquisition adjustments, accumulated amortization of acquisition adjustments and net acquisition adjustments by water system for 2014, 2013 and 2012. Schedule 2.3 shows total long term debt at 2014, 2013 and 2012. Schedule 2.4 shows contribution in aid of construction and accumulated amortization of CIAC by water system for 2014, 2013 and 2012.

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

A. Schedule 3 reflects the Company's Rate Base for both the actual 13 month average test year and the 2014 proforma test year. Columns b – n shows the actual month end balances. Column o shows the 13 months average balances. Column p shows the proforma adjustments. Column q shows the 2014 proforma balances. The balances are further supported by Schedules 3A and 3B.

The rate base consists of Utility Plant in Service less Accumulated Depreciation, plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant Acquisition Adjustment plus Material and Supplies, Prepayments less Deferred Taxes and less Contributions in Aid of Construction plus Accumulated

Amortization of CIAC and Cash Working Capital.

The Total Proformed Rate Base amounts to $3,387,973.

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

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, the Company believes that other rate base items should be fully reflected in rates. As such, the Company has adjusted the Actual 13 Month Average Balances to Year End Balances. The rate base items affected by the reflection of year end balances are plant in service (1), accumulated depreciation (4), accumulated amortization of utility plant in service (8), material and supplies (9), prepayments (10 & 11), accumulated deferred income taxes (12), CIAC (13) and accumulated amortization of CIAC (14), the sum of which is $151,483.

In addition to the proforma adjustments to rate base for the year end balances, the Company made a few other proforma adjustments as follows:

2. Plant in Service – 2015 specific additions - $580,681.

The Company plans to purchase the Mt. Robert's land for $415,906. Please see Mr. Mason's testimony regarding the purchase of the land and its value. The property is currently owned by the Company shareholder, Barbara Mason. The land is approximately 40 acres that abuts the Paradise Shores water system's water storage tank on Emerson Path. It provides low cost transmission of well water to the Emerson Path tank. The Company also plans to complete the Indian Mound project for $129,775 including pump house improvements, wells, pumps, treatment, tanks, mains, services and meters. The costs of the improvements will be financed by CoBank. The financing was approved by PUC in Order No. 25,753. In addition, the Company is replacing its accounting software for $35,000. See Schedule 9 for a breakdown of the specific additions to plant and related depreciation.

3. Plant in Service – 2015 general additions - $51,372.

Based on its recent experience, the Company anticipates that it will have to replace a certain number of pumps, mains, services and meters. The Company is prepared to substitute its actual 2015 experience later in the rate proceeding including any other 2015 additions to plant. The costs of these improvements are likely to be financed with internally generated cash. See Schedule 10 for a breakdown of the general additions to plant and related depreciation.

5. Accumulated Depreciation – Additional half year depreciation on 2014 additions – ($18,279).

In 2014 the Company took a half year of depreciation on its 2014 additions to plant. The Company is adjusting its accumulated depreciation for the other half year depreciation on the 2014 additions to plant in order to fully reflect the annual depreciation in accumulated depreciation.

6. Accumulated Depreciation – Annual Depreciation on 2015 specific additions – ($12,341).

The Company plans to expend $580,681 in capital improvements on specific additions in 2015. The annual depreciation on the 2015 specific additions to plant amounts to $12,341. The annual depreciation that would be charged to accumulated depreciation in 2015 amounts to $12,341.

7. Accumulated Depreciation – Annual Depreciation on 2015 general additions – ($2,714).

The Company anticipates spending $51,372 in capital improvements on general additions in 2015. The annual depreciation on the 2015 general additions to plant amounts to $2,714. The annual depreciation that would be charged to accumulated depreciation in 2015 amounts to $2,714.

15. Accumulated Amortization of CIAC – Additional half year amortization on 2014 contributions – ($218).

In 2014 the Company took a half year of amortization on its 2014 additions to plant. The Company is adjusting its accumulated amortization for the other half year amortization on the 2014 additions to plant in order to fully reflect the annual amortization in accumulated amortization.

17. Cash Working Capital - $223

The Company adjusted cash working capital for the proforma increase in operating and maintenance expenses.

The total proforma adjustments to Rate Base amounts to $750,643.

Q. Please explain Schedule 3B.

A. Schedule 3B shows the computation of cash working capital for 2014 proforma amount and 2014, 2013 and 2012 actual amounts. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

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

A. Schedule 4 reflects the overall rate of return for both the actual test year and the proforma test year. The weighted average rate of return for the actual test year is 8.19%. 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 weighted average rate of return for the proforma test year is 8.68%. It was developed by taking the proforma component ratios times the proforma component cost rates to determine the proforma weighted average cost rate. The sum of the proforma cost rates for equity and debt equals the proforma weighted average rate of return.

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 2013 and 2012. The Company is utilizing the Commission determined cost of common equity of 9.60% plus 2%, totaling 11.6%.

In DW 12-085 the PUC approved a cost of equity of 9.60% for Aquarion Water Company ("Aquarion"). Aquarion has more than 38 million in total assets at the end of 2014, 10 times LRWC. Aquarion has 11 million in total equity and 14 million of long term debt, representing a 44% / 56% equity / debt capital structure. LRWC has just the opposite with a 56% / 44% equity / debt capital structure on a proforma basis. Aquarion paid its shareholders $833,000 in 2014. LRWC has never paid its shareholder a dividend. Aquarion is a publicly traded company and part of an even large company. Aquarion has over 9,000 customers in NH, nearly 6 times LRWC. It had more than 7 million in operating revenues, again nearly 6 times LRWC.

It is not fair, reasonable and accurate to apply a cost of equity applicable to Aquarion and assume that it is applicable to LRWC or any other company, particularly a much smaller company. LRWC is a greater business risk. It does not have access to public markets. Its access to shareholder funds is much more limited than in the past. Its access to debt financing is presumably more difficult than Aquarion. Its not possible to conclude that 9.60% is appropriate for LRWC. As such, LRWC has added a 2% risk premium.

Schedule 4A reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/14 the Company has $919,678 of outstanding long term debt. Its 2014 total interest expense is $65,350. The 2014 actual cost of debt was 5.36%.

Schedule 4B reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the proforma test year. The proforma outstanding balance is $1,433,584 of outstanding long term debt. The increase in the outstanding balance is due to the addition of the PUC approved financing with

CoBank for $129,000 and the proposed addition of the Mt. Roberts land note for $415,906 for the purchase of the Mt. Robert's land. The proforma interest expense is $70,840. The increase in the interest expense is primarily additional interest associated with the CoBank loans and the Mt. Roberts land loan. The 2014 proforma cost of debt is 4.94%.

Q. Please explain the federal income taxes and state business taxes computation as shown on Schedule 5.

A. The proposed total rate base amounts to $3,387,973. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.52%. See Schedule 4. When the proforma weighted average cost rate for equity capital of 6.52% is applied to the proforma total rate base, the proforma net operating income required amounts to $220,932. When the tax multiplier of 65.59% is applied to the proforma net operating income required, it produces the total tax of $144,909, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 8.50% amounts to $31,097 and the federal income tax at 34% amounts to $113,813.

Q. Please explain the Report of Proposed Rate Changes.

A. If the Company filing is approved as submitted, its total water Operating Revenues will amount to $1,702,755. The Total Sales of Water amounts to $1,643,697, of which $1,441,417 comes from the Company's 1,666 unmetered and metered customers.

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

A. No. The Company is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. Please explain Schedule 7 – 10.

A. Schedules 7 - 10 are supporting schedules that support 2014 and 2015 additions to plant and the related depreciation and property taxes.

Schedule 7 shows 2014 additions to plant and the calculation of the additional half year depreciation on the 2014 additions. It also shows the calculation of the addition state and local property taxes.

Schedule 8 shows the 2014 retirement of plant.

Schedule 9 shows 2015 specific additions to plant and the calculation of the annual depreciation on the 2015 specific additions. It also shows the calculation of the addition state and local property taxes.

Schedule 10 shows 2015 general additions to plant and the calculation of the annual depreciation on the 2015 general additions. It also shows the calculation of the addition state and local property taxes.

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

A. The Company plans to make a temporary rate filing within 7 – 14 day proposing temporary rates and as such the permanent rates will be effective the date the PUC approves temporary rates.

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

A. Yes. The Company intends to submit a temporary rate filing 7 – 10 days after its permanent rate filing. The temporary rate filing will be essentially the same as the permanent rate filing except for the elimination of certain proforma adjustments. The temporary rate filing will contain what is necessary for the PUC Staff to conduct a limited review and hopefully join with the Company in presenting a settlement agreement on temporary rates to the PUC for approval.

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

A. Yes. The Company would like to discuss with the PUC Staff and other parties the possibility of billing monthly while continuing to read meters quarterly. The Company believes that it could devise a methodology whereby month 1 is estimated, month 2 is estimated and month 3 is actual adjusted for the prior 2 months of estimates based on actual meter reading. The Company does not believe the costs of reading meters monthly are justified. Overall, the change would be revenue neutral. There would be some additional costs such as paper, envelopes and postage.

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

A. Yes. The Company prepared and issued a request for proposal for legal and accounting / rate services for the rate case. Mr. Richardson of Upton & Hatfield was the only person to submit a response for legal services. Mr. St. Cyr of Stephen P. St. Cyr & Associates was the only person to submit a response for accounting / rate services. As such, Mr. Richardson and Mr. St. Cyr will be providing legal, accounting and rate services for the Company during the course of the proceeding.

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

The Company respectfully requests that the Commissioners (1) approve the Mt. Roberts land loan in the amount of $415,906 at an interest rate of 5.50% and (2) approve an increase in annual revenues of $386,745 for permanent rates.

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

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
07/22/15