STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Lakes Region Water Company

Petition for Approval of Long Term Financing and Transfer of Land Owned by an Affiliate

DW 15-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

September 30, 2015

Stephen P. St. Cyr & Associates
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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 prefiled testimony and financial exhibits. In addition, I am available to represent the Company during the technical session / settlement conference and hearing and to respond to data requests and other matters related to this filing.

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 general rate increases and step increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to obtain financing from CoBank to purchase the Mt. Roberts land. The financings will allow the Company to obtain permanent ownership and control of the Mt. Roberts land.

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Q. What are the total costs of the Mt. Roberts land?

A. The total costs of the Mt. Roberts land is $415,906. It includes $281,783 for land purchase, taxes, legal, surveys, etc. and $134,123 for AFUDC.

Q. How does the Company propose to finance such costs?

A. The Company proposes to borrow the funds from CoBank.

Q. What are the terms and conditions?

A. The proposed terms and conditions are 20 years at a 5.5% interest rate. Such terms and conditions are consistent with the recently PUC approved CoBank financing for the Company.

Q. What is the total amount of the financings?

A. The total amount of the financings is $420,000.

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 purchase of the Mt. Roberts land will allow the Company to meet one of the NHDES conditions of its approval of the small production well. It also will allow the Company to finally gain permanent ownership and control of the land.

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Q. How is the Company proposing to recover these investments?

A. The Company has incorporated the land in rate base and the debt and related costs in its capital structure as part of its current rate case (DW 15-209).

Q. Is there anything else that you would like to address before you address the financing schedules?

A. No.

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

A. Yes. Generally, column (a) indicates the line number and column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2014 account balances. Column (d) identifies the pro forma adjustments to the December 31, 2014 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2014 additions to plant and related financings.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $415,906 represents the total additions to utility plant.

The second adjustment to Cash for ($18,925) is the net of the cash received from CoBank less costs for the new plant and related expenses.

The third adjustment to Miscellaneous Deferred Debits is the net of the costs incurred from CoBank and 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 2014 additions to plant and related financings.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for ($228) represents the net income impact of the various income statement transactions (i.e., revenue, taxes and interest expense).

The second adjustment to Other Long Term Debt for $408,134 represents the net amount of the borrowing of $420,000 and the first year repayment on the loan of $11,866.

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 2014 additions to plant and related financing.

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

The first adjustment to Operating Revenue of $28,529 represents the revenue requirement associated with the additions to plant. The revenue requirement allows the Company to earn a return on the Company's investment.

The second adjustment to Taxes other than Income of $5,378 represents the increase in state utility property tax and the local property tax expense on the new plant.

The third and fourth adjustments to Interest Expense and Amortization of Debt Expense of $22,804 and $575, respectively, represent 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 Capital Structure?

A. The actual 2014 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 weighted towards equity due primarily to the owner funding past improvements. The addition of the debt will increase the debt to equity position.

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

A. Schedule SPS-4 identifies the specific journal entries used to develop the pro forma financial statements. The significant journal entries are the recording of (1) the debt financings, (2) the utilization of the funds for the Mt. Roberts land, (3) the repayment of the principal and interest on the loan and (4) the anticipated receipt of revenue.

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 an increase in rates.

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

A. The sum of the additions to plant results in an increased rate base of $415,906. The Company is applying a 5.57% return to determine the additional net operating income required. In addition, the Company adds the incremental increase in operation costs to the additional net operating income required in order to determine the total additional revenue requirement of $28,529.

Q. Would you please explain SPS-6, Actual Rate of Return?

A. SPS-6 shows the amount of the financing, the interest rate, the interest expense, the amortization of the financing costs and the actual cost rate.

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Q. Would you please explain SPS-7, Plant, Accumulated Depreciation and Depreciation Expense?

A. SPS-7 is a schedule of costs by plant account.

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

A. SPS-8 is a schedule that shows the calculation of the increase in state and local property taxes.

Q. Would you please explain SPS-9, the Source and Use Statement?

A. The source of the funds is CoBank and the Company. The use of the funds is the purchase of the Mt. Roberts land and the payment of the CoBank fee and professional services related to the financing.

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

A. The Company estimates that it will incur approximately $11,500 in financing costs.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve the CoBank loan for $420,000 to purchase the Mt. Roberts land.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

09/30/2015