

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY

DW 16-

**PETITION FOR APPROVAL OF
FORD MOTOR CREDIT FINANCING OF \$39,674**

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 Hampstead Area Water Company's (Company or HAWC) financing request and to prepare the financial schedules 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 \$39,674 from Ford Motor Credit, which will allow it to purchase a 2016 Ford F250 pickup truck with utility body. The pickup truck will be used by an additional water system operator. The pickup truck is necessary to perform his duties.
- Q. Please describe the Ford Motor Credit loan.
- A. The term of the loan is 5 years. The interest rate will be fixed within a range of 4.89% to 6%, to be determined at the time of purchase. For purposes of the financing schedules, the Company is using 5.5%.
- Q. When does the Company anticipate entering into the loan agreement with Ford Motor Credit?
- A. The Company anticipates entering into the loan agreement as soon as the Commission approves the financing.
- Q. Is there anything else that you would like to discuss before you describe the financial schedules?
- A. No.
- Q. Has the Company determined the impact of the financing on the Company's financial statements?
- A. Yes. I have prepared proforma financial statements identified as SPS 1 – SPS 6.
- Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Debits?

A. Yes. Generally, column (b) identifies the account title and PUC account number. Column (c) reflects the actual December 31, 2015 balances. Column (d) identifies the adjustments for the financing to the December 31, 2015 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments reflected on SPS 1-1.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment reflects the addition to utility plant for the purchase price of \$39,674.

The second adjustment reflects a half depreciation of \$3,967 on the addition to plant.

The third adjustment reflects the change in cash. While the change in cash is negative, the Company still has substantial cash. At some point, the net addition to plant and the additional debt and related interest will be reflected in rates.

The fourth adjustment reflects the net of the estimated financing costs less the amortization of such financing costs over 5 years.

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 on reflected on SPS 1-2.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment reflects the impact on net income. It primarily reflects more depreciation and interest expense resulting in less net income.

The second adjustment reflects the net of the financing.

Q. Would you please explain Schedule SPS-2, entitled Statement of Income?

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments reflected on SPS-2.

A. There are 3 adjustments to the Statement of Income.

The first adjustment is the increase in depreciation expense.

The second adjustment is the increase in interest expense.

The third adjustment is the increase in the amortization of debt expense.

Q. Would you please explain Schedule SPS 3, entitled Capital Structure?

A. The Current Year Balance is the balance at 12/31/15 and is also reflected on the Balance Sheet (see SPS 1-2). The adjustments are the change in retained earnings due to the decrease in net income and the change in long term debt due to the financing. The related capitalization ratios are shown on the bottom half of the schedule. The Company's 12/31/15 debt to equity position is heavily weighted toward debt due in part to its negative retained earnings. The financing does not substantially change the debt to equity position. In recent years the Company's net income has reduced the negative retained earnings.

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 JE#2, the borrowing of funds from Ford Motor credit, and JE#3, the purchase of the Ford F250 pickup truck and JE#5, which shows the 1 year principal and interest payment on the loan.

- Q. Would you like to explain SPS-5?
- A. SPS-5 shows the source and use of the funds.
- Q. Would you please explain SPS-6?
- A. SPS-6 shows the estimated costs to pursue PUC approval of the financing.
- Q. How does the Company propose to repay the Ford Motor Credit loan debt?
- A. The Company has adequate cash to pay the monthly principal and interest on the loan.
- Q. What does the Company propose to do with the costs of the financing?
- A. The costs associated with the PUC approval will be deferred and amortized over the term of the loan.
- 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 financing will allow the Company to purchase the Ford F250 pickup truck and provide such truck to an additional water system operator.
- Q. When should the Commission approve the financing?
- A. The Company respectfully requests that the Commission approve the financing as soon as possible but no later than October 31, 2016 so that the Company can borrow the funds and purchase the truck.
- 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 financing by Ford Motor Credit in the amount of \$39,674 under the terms stated previously.

Q. Does this conclude your testimony?

A. Yes.