



Exh # 4

Page 1 of 32

Stephen P. St. Cyr & Associates
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Direct Testimony of Stephen P. St. Cyr in DW 17-165

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 Abenaki Water Company ("Abenaki" or "Company")?

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

Q. Are you familiar with the pending rate application of Rosebrook and with the various exhibits submitted as Schedules 1 through 4 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 Rosebrook is using in this filing?

A. Rosebrook is utilizing the twelve months ended September 30, 2017.

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

9 A. In 2016 Rosebrook was purchased by Abenaki. Since its purchase, Abenaki has
10 invested in Rosebrook's plant, mostly meters. Rosebrook has a well-documented
11 pressure problem. Rosebrook is looking at ways to address the pressure problem
12 including designing the engineering plans and specification and obtaining the
13 necessary easements reflected in the proposed step increase. Rosebrook will need
14 additional financing for the pressure reduction project.
15

16 For the twelve months ended September 30, 2017 (the test year) the actual net
17 loss amounted to \$27,247. Abenaki has been losing money on Rosebrook since
18 its acquisition. With the proposed increase in rates and revenues, Rosebrook
19 should be able to eliminate the net loss, recover its investments, earn a fair and
20 reasonable rate of return on its investment and continue to provide service to its
21 customers at fair and reasonable rates.
22

23 Q. Is there anything else prior to summarizing the schedules?
24

25 A. Yes. Rosebrook seeks Commission approval of a year-end rate base. While the
26 Company has always believed that a year-end rate base is appropriate, that is
27 particularly true for Rosebrook given the investments Abenaki has made since the
28 purchase of the water system. All of these investments are "used and useful" and
29 providing service to customers.
30

31 Rosebrook is also seeking recovery of its due diligence costs. These are the costs
32 that were incurred in the process of purchasing the water system and gaining PUC
33 approval (DW 16-448). The recovery of these costs consistent with the PUC's
34 approval of similar due diligence costs incurred when Abenaki purchased
35 Lakeland and White Rock. Rosebrook is proposing to amortize the due diligence
36 costs over an 8 year period.
37

38 In addition, Rosebrook is also seeking recovery of its 10% premium. These are
39 the costs incurred above the book value of the assets purchased. Abenaki's parent
40 company, New England Service Company, brings management, operational,
41 financial and administrative strengths that have not been previously available to
42 Rosebrook. Abenaki's purchase of Rosebrook has been seamless and a beneficial
43 transition for its customers. There have been several enhancements within the
44 first year of ownership that demonstrate Abenaki's commitment to prudent
45 investments that not only improve the system's integrity but customer experience
46 as well. There has been a commitment to address the long standing pressure

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6
7 problem. Rosebrook proposes to amortize the 10% premium over an 8 year
8 period.

9
10 Finally, Rosebrook is using an 11.6% return on equity. This represents a 2%
11 increase in percentage above what the Commission has recently allowed for water
12 companies. Rosebrook believes that the 2% is probably the minimal, acceptable
13 percentage. It believes that it arguably could be in the range of 2% - 4%. As
14 such, Abenaki is collaborating with two other small water companies in engaging
15 a cost of equity expert to prepare testimony focused on size and risk. The
16 companies expect a petition pertaining to the subject will be filed with the
17 Commission in the next 45 – 60 days.

18
19 Q. Would you please summarize the schedules?

20
21 A. Yes. The schedule entitled “Computation of Revenue Deficiency for the Test
22 Year ended September 30, 2017,” summarizes the supporting schedules. The
23 actual revenue deficiency for Rosebrook for the test year amounts to \$48,905. It
24 is based upon an actual test year with a 4 quarter average rate base of \$488,114 as
25 summarized in Schedule 3. The Company’s actual rate of return is 6.74% for the
26 actual test year. The rate of return of 6.74%, when multiplied by the rate base of
27 \$488,114, results in an operating income requirement of \$32,920. As shown on
28 Schedule 1, the actual net operating income (loss) for the Company for the test
29 year was (\$15,985). The operating income required, less the net operating income
30 (loss), results in an operating income deficiency before taxes of \$48,905. The
31 Company did not calculate the tax effect of the revenue deficiency, resulting in a
32 revenue deficiency for the Company of \$48,905.

33
34 The pro forma revenue deficiency for the Company for the test year amounts to
35 zero. It is based upon a pro formed test year rate base of \$625,578, as
36 summarized in Schedule 3. The Company is utilizing a pro formed rate of return
37 of 7.78% for the pro formed test year. The pro formed rate of return of 7.78%
38 when multiplied by the rate base of \$625,578, results in an operating net income
39 requirement of \$48,673.

40
41 As shown on Schedule 1, the pro formed net operating income for the Company
42 for the test year is \$48,673. The operating income required, less the net operating
43 income, results in a deficiency of zero. The tax effect of the deficiency is zero,
44 resulting in a revenue deficiency for the Company of zero.

45
46

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6
7 Q. Would you please explain Schedule 1 and supporting Schedule 1A – 1C?

8
9 A. Schedule 1 reflects Rosebrook's Statement of Income. Column b shows the
10 actual Oct. – Dec. 2016 3 months' balances. Column c shows actual Jan. – Sept.
11 2017 nine months' balances. Column d actual Oct. 2016 – Sept. 2017 combined
12 balances. Column e shows the pro forma adjustments for known and measurable
13 changes to test year revenues and expenses. The pro forma adjustments are
14 further supported by schedule 1A. Column f shows the pro forma test year
15 balances.

16
17 During the twelve months ended September 30, 2017, the actual operating
18 revenues amounted to \$270,092. Rosebrook's total operating expenses amounted
19 to \$286,077, resulting in a net operating loss of (\$15,985). Net Income (Loss) for
20 the same period is (\$27,247).

21
22 The Company made 1 pro forma adjustment to operating revenues totaling
23 \$102,232 and a few pro forma adjustments to operating expenses totaling
24 \$37,574. The specific pro forma adjustments are identified on the Statement of
25 Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as
26 follows:

27
28 Pro forma Adjustment to Operating Revenues

29
30 Operating Revenues – \$102,232

31
32 The Company has increased test year revenues for the proposed amount of
33 revenues necessary to cover its expenses and allow it to earn its proposed rate of
34 return.

35
36 Pro forma Adjustments to Expense

37
38 Operating Expenses:

39
40 PUC Audit - \$1,000

41
42 In anticipation of a PUC audit, the Company estimated that it will incur
43 \$3,000. No such audit expenses are reflected in the test year. The Company is
44 proposing to recover the proposed audit expense of \$3,000 over 3 years, resulting
45 in a test year adjustment of \$1,000.
46

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6
7 Lease Agreements - \$342

8
9 During the test year Rosebrook incurred \$7,794 for rent of lease space,
10 both at Laconia, NH. and Plainville, CT. Going forward, Rosebrook expects to
11 pay \$618 per month or \$7,416 per year at Laconia, NH and \$60 per month or
12 \$720 per year at Plainville, CT., totaling \$8,136. The difference between what
13 Rosebrook expects to pay and what it did pay during the test year results in a pro
14 forma adjustment of \$342.

15
16 Amortization of Organizational Costs - \$6,491

17
18 Abenaki incurred due diligence costs in the process of purchasing the
19 water system and gaining PUC approval (DW 16-448). The recovery of these
20 costs are consistent with the PUC's approval of similar due diligence costs
21 incurred when Abenaki purchased Lakeland and White Rock. Rosebrook is
22 proposing to amortize the due diligence costs over an 8 year period.

23
24 Amortization of Utility Plant Acquisition Costs - \$4,529

25
26 Abenaki incurred a 10% premium above the book value of the assets
27 purchased. The recovery of these costs is based on its management, operational,
28 financial and administrative strengths of the organization. The recovery also
29 would align the premium with other jurisdictions such as MA. and CT.
30 Rosebrook proposes to amortize the 10% premium over an 8 year period.

31
32 During the twelve months ended September 30, 2017, Rosebrook incurred
33 \$5,090 and \$17,614 in state and local property taxes. At this point, the Company
34 is unaware of any increase or decrease in property taxes. As such, the Company
35 has not made any pro forma adjustments. However, it reserves the right to
36 increase and / or decrease property taxes for any known and measurable change
37 likely to be known later this year.

38
39 With the proposed increase in revenue offset by the proposed increase in
40 expenses, there is also a related increase in the federal income and state business
41 taxes. The increase in federal income taxes represents the additional tax liability
42 due to the increase in taxable income. The increase in state business taxes
43 represents the additional tax liability due to the increase in gross profits.

44
45
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6
7 The Company has provided the calculation of the federal income taxes and
8 the state business taxes (Schedule 1B). The Company has also provided the
9 effective tax factor (Schedule 1C).

10
11 The total pro forma adjustments to Operating Expenses amount to
12 \$37,574.

13
14 The net of the pro forma adjustments to operating revenue of \$102,232
15 and the pro forma adjustments to operating expenses of \$37,574 results in a net
16 pro forma adjustment of \$64,658. When the net operating income associated with
17 the pro forma adjustments is added to net operating income from the test year, the
18 pro forma test year net operating income totals \$48,673. The pro forma test year
19 net operating income of \$48,673 allows Rosebrook to cover its expenses and
20 earn its proposed 7.78% return on its investments.

21
22 Q. Does that complete your description of the pro forma adjustments to revenues and
23 expenses?

24
25 A. Yes.

26
27 Q. Please describe Schedule 2, the Balance Sheet.

28
29 A. Please note that the Balance Sheet is for Abenaki (Total Company) and not just
30 Rosebrook. Abenaki has \$2,002,892 total assets at September 30, 2017.
31 \$1,689,653 of the \$2,002,892 total assets is net plant, of which is completed and
32 providing service to customers. Abenaki has \$636,755 of total equity capital.
33 Abenaki incurred a loss in 2016, which reduced retained earning and total equity.
34 Abenaki has \$576,965 of long term debt. The long term debt balance has
35 decreased due to payment of principal on the two outstanding loans. Accounts
36 payable to Associated Co. has increased during the test year. A portion of the
37 plant has been contributed.

38
39 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
40 schedule.

41
42 A. Schedule 3 reflects Rosebrook's Rate Base for both the 4 quarter average and the
43 pro forma year-end balance. Column b – e shows the actual balance at the end of
44 each quarter. Column f shows the average of the 4 quarter balances. Column g
45 shows the pro forma adjustments. Column h shows the pro forma year-end
46 balance.

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6
7 Schedule 3A shows the Rate Base – Pro forma Adjustments. Pro forma
8 adjustments 1, 3, 6, 7, 8, 9 & 10 adjust the 4 quarter average balances to the
9 September 30, 2017 balances. It is appropriate to use the September 30, 2017
10 balance since all of the invested capital is fully “used and useful” and providing
11 service to customers.

12
13 Adjustments 2 & 4 pertain to due diligence costs of \$51,931, which represents the
14 expenditures incurred in pursuing and gaining PUC approval to purchase
15 Rosebrook. The Company proposes to recover such costs over 8 years.

16
17 Adjustment 5 pertains to the amortization of the Rosebrook 10% premium. The
18 premium is being amortized over 8 years.

19
20 Adjustment #11 pertains to cash working capital and shows the additional cash
21 working capital due to the proposed increase in O&M expenses. The cash
22 working capital balances are further supported by Schedules 3C.

23
24 Schedule 3B shows the reclassification of the Rosebrook due diligence costs to
25 organizational costs. The due diligence costs amounted to \$51,931. The
26 Company proposes to recover such costs over 8 years.

27
28 The Total Pro forma September 30, 2017 Rate Base balance amounts to \$625,578.

29
30 Q. Would you please explain Schedule 4, Rate of Return Information?

31
32 A. Please note that the Rate of Return Information is for Abenaki (Total Company)
33 and not just Rosebrook. Schedule 4 reflects the overall rate of return of 6.74%
34 and 7.78% for actual and pro forma, respectively. The weighted average rate of
35 return for the actual test year is 6.74%. It was developed by taking the actual
36 component ratios times the actual component cost rates to determine the actual
37 weighted average cost rate. The sum of the actual cost rates for equity and debt
38 equals actual weighted average rate of return. Rosebrook made only one
39 adjustment to the actual rate of return. It added 2% to the PUC determined 9.6%
40 cost of equity.

41
42 The 2% represents a minimal percentage increase for the size, the increased risk
43 to own and operate a smaller water company and the increased costs of both debt
44 and equity capital. As such, the weighted average rate of return for the pro forma
45 test year is 7.78%.

46

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6
7 Schedule 4 also reflects both the capital structure and the capital ratios. Abenaki
8 has provided the capital structure for the actual test year and the pro forma test
9 year. It should be noted that prior to the purchase of Rosebrook, Rosebrook's
10 capital structure consisted entirely of equity capital. With both debt and equity
11 used to finance the purchase, the Capital structure is better balanced and results in
12 a lower rate of return.

13
14 In addition, Schedule 4 reflects the long term debt, interest expense, financing
15 costs, total debt costs and debt costs rates for the actual test year. At 9/30/17
16 Abenaki has \$592,281 of outstanding long term debt. Total interest expense for
17 the twelve months ended September 30, 2017 is \$21,762. The September 30,
18 2017 actual cost of debt was 3.67%. There was no change to the long term debt,
19 interest expense and financing costs for the pro forma test year.

20
21 Q. Please explain the Report of Proposed Rate Changes.

22
23 A. If Rosebrook's filing is approved as submitted, its total water Operating Revenues
24 will amount to \$372,324.

25
26 Q. Is Rosebrook proposing any changes to the methodology used in calculating the
27 rates?

28
29 A. Yes. Rosebrook needs to increase its revenue from the quarterly charges. The
30 present rates generate approximately 31% of the total revenues via the quarterly
31 charges. Rosebrook believes that the percentage from quarterly charges should be
32 closer to 50%, particularly due to the seasonal nature of the service area. As such,
33 Rosebrook proposes to double the quarterly charges. With doubling the quarterly
34 charges, the proposed rates would generate approximately 45% of the total
35 revenue.

36
37 Q. When is Rosebrook proposing that the new rates be effective?

38
39 A. The proposed effective date is January 1, 2018.

40
41 Q. Is there anything else that Rosebrook would like to address?

42
43 A. Yes.

44
45
46

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Q. Has Rosebrook prepared Step Increase schedules? If so, please describe.

A. Yes. Rosebrook is proposing 2018 additional to plant of \$210,000 including designing the engineering plans and specifications and obtaining the necessary easements reflected in the proposed step increase. The proposed additional revenue requirement associated with the planned additions to plant is \$22,645. It is derived from the net addition to rate base of \$206,563. The return on the additional plant at 5.12% is \$10,570. The additional operating expenses are

\$12,075. The sum of the return of \$10,570 and the additional operating expenses of \$12,075 results in an additional revenue requirement of \$22,645.

Please see Page 1 of 4 of the Step Increase schedule. Page 2 of 4 shows how the annual cost rate of 5.12% was derived. Page 3 of 4 shows the costs of the plant and the related depreciation. Page 4 of 4 shows the additional state and local property taxes.

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

A. Yes. The Company has decided to pursue temporary rates as part of this rate case filing. The temporary rate filing will be filed under a separate cover letter.

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

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 Abenaki have agreed on a per hour fee of \$135.00 for each hour of work performed. Abenaki and I believe that the fees are fair and reasonable. At this point, Abenaki does not anticipate utilizing outside legal council.

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

A. The Company respectfully requests that the Commissioners approve an increase in annual revenues of \$102,232 for permanent rates. Also, the Company respectfully requests that the PUC approve the Company requests for step increase of \$22,645.

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7 Q. Is there anything further that you would like to discuss?
8

9 A. No, there is nothing further.
10

11 Q. Does this conclude your testimony?
12

13 A. Yes.
14
15

16 SPSt. Cyr
17 12/04/17

AWC Rosebrook Water**Computation of Revenue Deficiency****For the Test Year Ended September 30, 2017**

	<u>Actual</u>	<u>Proforma</u>
Rate Base (Schedule 3)	\$ 488,114	\$ 625,578
Rate of Return (Schedule 4)	<u>6.74%</u>	<u>7.78%</u>
Operating Income Required	\$ 32,920	\$ 48,673
Annualized Net Operating Income (Schedule 1)	<u>(15,985)</u>	<u>48,673</u>
Operating Income (Deficiency) Surplus	\$ (48,905)	\$ (0)
Tax Effect		<u>-</u>
Revenue Surplus (Deficiency)	<u>\$ (48,905)</u>	<u>\$ (0)</u>

AWC Rosebrook Water

Schedule 1

Statement of Income

Line No.	Account Title (Number) (a)	Actual Oct. - Dec. 2016 (b)	Actual Jan. - Sept 2017 (c)	Actual Oct. - Sept 2017 (d)	Proforma Adjustments (e)	Proforma 10/1/16 - 9/30/17 (f)
UTILITY OPERATING INCOME						
1	Operating Revenues(400)	\$ 68,569	\$ 201,523	\$ 270,092	\$ 102,232	\$ 372,324
2	Operating Expenses:					
3	Operating and Maintenance Expense (401)	59,300	153,274	212,574	1,342	213,916
4	Depreciation Expense (403)	17,360	39,912	57,272	6,491	63,763
5	Amortization of Contribution in Aid of Construction (405)	(5,279)	(10,696)	(15,975)		(15,975)
6	Amortization of Utility Plant Acquisition Adjustment (406)	(1,124)		(1,124)	4,529	3,405
7	Amortization Expense-Other (407)	8,394	14,310	22,704	0	22,704
8	Taxes Other Than Income (408, 1-408, 13)	(5,500)	16,126	10,626	25,211	35,837
9	Income Taxes (409, 1, 410, 1, 411, 1, 412, 1)	73,151	212,926	286,077	37,574	323,651
10	Total Operating Expenses	(4,582)	(11,403)	(15,985)	64,658	48,673
11	Net Operating Income (Loss)					
12	Other Income and Deductions					
13	Interest and Dividend Income (419)	2,334		2,334		2,334
14	Allow. for funds Used During Construction (420)					
15	Nonutility Income (421)					
16	Gains (Losses) From Disposition of Nonutility Property (421)					
17	Miscellaneous Nonutility Expenses (426)	(2,864)	(10,732)	(13,596)		(13,596)
18	Interest Expense (427)					
19	Taxes Applicable to Other Than Income (409, 2, 410, 2, etc.)	(530)	(10,732)	(11,262)	-	(11,262)
20	Total Other Income and Deductions	(5,112)	(22,135)	(27,247)	64,658	37,411
21	NET INCOME (LOSS)					

AWC Rosebrook Water
Statement of Income - Proforma Adjustments

Schedule 1A

Page 1 of 3

Operating Revenues

1	Proforma Oct. 2016 - Sept. 2017	\$ 372,324
	Actual Oct. 2016 - Sept 2017	<u>270,092</u>
	Proforma Adjustment	<u>\$ 102,232</u>

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Operation and Maintenance Expenses

2	<u>PUC Audit</u>	
	Proforma Oct. 2016 - Sept. 2017	\$ 1,000
	Actual Oct. 2016 - Sept 2017	<u>0</u>
	Proforma Adjustment	<u>\$ 1,000</u>

To adjust test year expenses for costs associated with PUC audit of test year expenses (\$3,000 / 3 years)

3	<u>Lease Agreements</u>	
	Proforma Oct. 2016 - Sept. 2017	\$ 8,136
	Actual Oct. 2016 - Sept 2017	<u>7,794</u>
	Proforma Adjustment	<u>\$ 342</u>

To adjust test year expenses for costs associated with rent of lease space.

Total Proforma Adjustments to Operation and Maintenance Expense **\$ 1,342**

Amortization of Organizational Costs

4	Proforma Oct. 2016 - Sept. 2017	\$ 6,491
	Actual Oct. 2016 - Sept 2017	<u>0</u>
	Proforma Adjustment	<u>\$ 6,491</u>

To record amortization of organization costs (\$51,931 / 8 years)

Schedule 1A
Page 2 of 3**Amortization of 10% Premium**

5	Proforma Oct. 2016 - Sept. 2017	\$ 4,529
	Actual Oct. 2016 - Sept 2017	<u>0</u>
	Proforma Adjustment	<u>\$ 4,529</u>
	To record amortization of organization costs (\$36,234 / 8 years)	

Taxes other than Income TaxesState Utility Property Taxes

6	Proforma Oct. 2016 - Sept. 2017	\$ 5,090
	Actual Oct. 2016 - Sept 2017	<u>5,090</u>
	Proforma Adjustment	<u>\$ -</u>

Town of Carroll Property Taxes

7	Proforma Oct. 2016 - Sept. 2017	\$ 12,915
	Actual Oct. 2016 - Sept 2017	<u>12,915</u>
	Proforma Adjustment	<u>\$ -</u>

Town of Bethlehem Property Taxes

8	Proforma Oct. 2016 - Sept. 2017	\$ 4,699
	Actual Oct. 2016 - Sept 2017	<u>4,699</u>
	Proforma Adjustment	<u>\$ -</u>

Total Proforma Adjustments to Taxes other than Income
See 3B for calculation of additional state and local property taxes.

\$ -**Income Taxes**Federal Income Taxes

9	Proforma Oct. 2016 - Sept. 2017	\$ 19,368
	Actual Oct. 2016 - Sept 2017	<u>0</u>
	Proforma Adjustment	<u>\$ 19,368</u>

Schedule 1A
Page 3 of 3State Business Taxes

10	Proforma Oct. 2016 - Sept. 2017	\$ 5,088
	Actual Oct. 2016 - Sept 2017	<u>(755)</u>
	Proforma Adjustment	<u>\$ 5,843</u>
To adjust test year expenses for the increase in state business taxes due to the increase in revenue. For additional support, please see schedule 5.		
	Total Proforma Adjustment to Income Taxes	<u>\$ 25,211</u>
	Total Proforma Adjustment to Operating Expense	<u>\$ 37,574</u>

AWC Rosebrook Water**Schedule 1B****Income Tax Computation**

	<u>Actual</u>	<u>Proforma</u>
Total Rate Base	\$488,114	\$625,578
Equity Component of Cost of Capital	<u>4.97%</u>	<u>6.01%</u>
Operating Net Income Required	\$24,277	\$37,596
Tax Multiplier (Schedule 5A)	<u>15,792</u>	<u>24,456</u>
Income Required before Income Taxes	\$40,070	\$62,053
Less: NH Business Profits Tax @ 8.2%	<u>3,286</u>	<u>5,088</u>
Income subject to Federal Taxes	\$36,784	\$56,964
Less: Federal Income Tax @ 34%	<u>12,506</u>	<u>19,368</u>
Income after Income Taxes	<u>\$24,277</u>	<u>\$37,596</u>

AWC Rosebrook Water**Schedule 1C****Effective Tax Factor**

Taxable Income	100.00%
Less: NH Business Profits Tax	8.20%
Federal Taxable Income	91.80%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.21%
Add: NH Business Profit Tax	8.20%
Effective Tax Rate	39.41%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.41%
Percent Used as a Divisor in Determining the Revenue Requirement	60.59%
Tax Multiplier	65.05%

AWC (Total Company)

Schedule 2-1

Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Ref Sch. (b)	9/30/2017 Balance	12/31/2016 Balance (c)
	UTILITY PLANT			
1	Utility Plant (101-106)	F-6	\$ 2,901,759	\$ 2,681,245
2	Less: Accumulated Depr. and Amort. (108-110)	F-6	1,234,856	1,170,820
3	Net Plant		\$ 1,666,903	\$ 1,510,425
4	Utility Plant Acquisition Adj. (Net) (114-115)	F-7	22,750	22,750
5	Total Net Utility Plant		\$ 1,689,653	\$ 1,533,175
	OTHER PROPERTY AND INVESTMENTS			
6	Nonutility Property (121)	F-14		
7	Less: Accumulated Depr. and Amort. (122)	F-15		
8	Net Nonutility Property			
9	Investment in Associated Companies (123)	F-16		
11	Utility Investments (124)	F-16	3,210	3,210
12	Other Investments	F-16		
13	Special Funds(126-128)	F-17		
14	Total Other Property & Investments		\$ 3,210	\$ 3,210
	CURRENT AND ACCRUED ASSETS			
16	Cash (131)		17,339	168,713
17	Special Deposits (132)	F-18		
18	Other Special Deposits (133)	F-18		
19	Working Funds (134)			
20	Temporary Cash Investments (135)	F-16		
21	Accounts and Notes Receivable-Net (141-144)	F-19	67,988	25,182
22	Accounts Receivable from Assoc. Co. (145)	F-21		
23	Notes Receivable from Assoc. Co. (146)	F-21		
24	Materials and Supplies (151-153)	F-22	12,116	12,724
25	Stores Expense (161)			
26	Prepayments-Other (162)	F-23	7,511	851
27	Prepaid Taxes (163)	F-38		
28	Interest and Dividends Receivable (171)	F-24		
29	Rents Receivable (172)	F-24		
30	Accrued Utility Revenues (173)	F-24	-	67,940
31	Misc. Current and Accrued Assets (174)	F-24		
32	Total Current and Accrued Assets		\$ 104,954	\$ 275,410
	DEFERRED DEBITS			
32	Unamortized Debt Discount & Expense (181) - Note 1	F-25		
33	Extraordinary Property Losses (182)	F-26		
34	Prelim. Survey & Investigation Charges (183)	F-27	83,560	43,405
35	Clearing Accounts (184)			
36	Temporary Facilities (185)			
37	Miscellaneous Deferred Debits (186)	F-28	112,015	122,664
38	Research & Development Expenditures (187)	F-29		
39	Accumulated Deferred Income Taxes (190) - Note 2	F-30	9,500	10,300
40	Total Deferred Debits		\$ 205,075	\$ 176,369
	TOTAL ASSETS AND OTHER DEBITS		\$ 2,002,892	\$ 1,988,164

AWC (Total Company)

Schedule 2-2

Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	9/30/2017 Balance	12/31/2016 Balance (c)
	EQUITY CAPITAL			
1	Common Stock Issued (201)	F-31		
2	Preferred Stock Issued (204)	F-31		
3	Capital Stock Subscribed (202,205)	F-32		
4	Stock Liability for Conversion (203, 206)	F-32		
5	Premium on Capital Stock (207)	F-31		
6	Installments Received On Capital Stock (208)	F-32		
7	Other Paid-In Capital (209,211)	F-33	589,521	589,521
8	Discount on Capital Stock (212)	F-34		
9	Capital Stock Expense(213)	F-34		
10	Retained Earnings (214-215)	F-3	47,234	65,231
11	Reacquired Capital Stock (216)	F-31		
12	Total Equity Capital		\$ 636,755	\$ 654,752
	LONG TERM DEBT			
13	Bonds (221)	F-35		
14	Reacquired Bonds (222)	F-35		
15	Advances from Associated Companies (223)	F-35		
16	Other Long-Term Debt (224)	F-35	576,956	606,667
17	Total Long-Term Debt - Note 1		\$ 576,956	\$ 606,667
	CURRENT AND ACCRUED LIABILITIES			
18	Accounts Payable (231)		16,697	70,935
19	Notes Payable (232)	F-36		
20	Accounts Payable to Associated Co. (233)	F-37	208,581	113,053
21	Notes Payable to Associated Co. (234)	F-37		
22	Customer Deposits (235)			
23	Accrued Taxes (236)	F-38	7,536	2
24	Accrued Interest (237)		1,928	
25	Accrued Dividends (238)			
26	Matured Long-Term Debt (239)	F-39		
27	Matured Interest (240)	F-39		
28	Misc. Current and Accrued Liabilities (241)	F-39		
29	Total Current and Accrued Liabilities		\$ 234,742	\$ 183,990
	DEFERRED CREDITS			
30	Unamortized Premium on Debt (251)	F-25		
31	Advances for Construction (252)	F-40		
32	Other Deferred Credits (253)	F-41		
33	Accumulated Deferred Investment Tax Credits (255)	F-42		
34	Accumulated Deferred Income Taxes:			
35	Accelerated Amortization (281)	F-45		
36	Liberalized Depreciation (282) - Note 2	F-45	170,951	143,651
37	Other (283)	F-45		
38	Total Deferred Credits		\$ 170,951	\$ 143,651
	OPERATING RESERVES			
39	Property Insurance Reserve (261)	F-44		
40	Injuries and Damages Reserve (262)	F-44		
41	Pensions and Benefits Reserves (263)	F-44		
42	Miscellaneous Operating Reserves (265)	F-44		
43	Total Operating Reserves		\$ -	\$-
	CONTRIBUTIONS IN AID OF CONSTRUCTION			
44	Contributions In Aid of Construction (271)	F-46	631,644	635,660
45	Accumulated Amortization of C.I.A.C. (272)	F-46	248,156	236,556
46	Total Net C.I.A.C.		\$ 383,488	\$ 399,104
46	TOTAL EQUITY CAPITAL AND LIABILITIES		\$ 2,002,892	\$ 1,988,164

AWC Rosebrook Water

Schedule 3

Rate Base

Line No.	Account Title (a)	December 2016 Balance (b)	March 2017 Balance (c)	June 2017 Balance (d)	September 2017 Balance (e)	4 Qtrs Avg 9/30/2017 Balance (f)	Proforma Adjustments (g)	Proforma Year End Balance (h)
1	Plant in Service	\$1,382,473	\$1,398,584	\$1,451,681	\$1,553,770	\$1,446,627	\$159,074	\$1,605,701
2	Less: Accumulated Depreciation	<u>651,169</u>	<u>660,169</u>	<u>665,005</u>	<u>678,505</u>	<u>663,712</u>	<u>18,039</u>	<u>681,751</u>
3	Net Utility Plant	731,304	738,415	786,676	875,265	782,915	141,035	923,950
4	Util Plant Acq Adj - Rosebrook 10%	36,234	36,234	36,234	36,234	36,234		36,234
5	Accum Amort of Util Plant Acq Adj	0	0	0	0	-	(2,265)	(2,265)
6	Total Net Utility Plant	767,538	774,649	822,910	911,499	819,149	138,770	957,919
7	Material and Supplies	5,408	4,800	4,800	4,800	\$4,952	(152)	4,800
8	Prepayments	851	4,788	4,811	4,154	3,651	503	4,154
9	Contribution in Aid of Construction	(448,708)	(448,708)	(448,708)	(446,331)	(448,114)	1,783	(446,331)
10	Accumulated Amortization of CIAC	168,217	168,217	175,348	176,537	172,080	4,457	176,537
11	Accumulated Deferred Income Taxes	<u>(81,751)</u>	<u>(81,751)</u>	<u>(97,877)</u>	<u>(97,877)</u>	<u>(89,814)</u>	<u>(8,063)</u>	<u>(97,877)</u>
12	Rate Base	<u>\$411,555</u>	<u>\$421,995</u>	<u>\$461,284</u>	<u>\$552,782</u>	\$461,904	\$137,298	\$599,202
13	Cash Working Capital (1)					26,210	165	26,376
14	Total Rate Base					<u>\$ 488,114</u>	<u>\$ 137,464</u>	<u>\$ 625,578</u>
15	(1) Cash Working Capital 4 Quarter 9/30/17 Balance is the same as the 9/30/17 Balance.							

**AWC Rosebrook Water
Rate Base - Proforma Adjustments**

Schedule 3A

Page 1 of 3

Plant in Service

1	9/30/17 Balance	\$1,553,770
	4 Quarters Average 9/30/17 Balance	<u>1,446,627</u>
	Proforma Adjustment	<u>\$107,143</u>
	To adjust test year 4 quarters average plant in service to fully reflect 9/30/17 additions to plant	
2	Proforma 9/30/17 Balance with organization costs	\$1,605,701
	Proforma 9/30/17 Balance	<u>1,553,770</u>
	Proforma Adjustment	<u>\$51,931</u>
	To adjust test year 9/30/17 balance of plant in service for org. costs For additional support, please see schedule 3B	
	Total Proforma Adjustments to Plant in Service	<u>\$159,074</u>

Accumulated Depreciation and Amortization

3	9/30/17 Balance	\$678,505
	4 Quarters Average 9/30/17 Balance	<u>663,712</u>
	Proforma Adjustment	<u>\$14,793</u>
	To adjust 4 quarters test year average accumulated depreciation to fully reflect 9/30/17 accum depr	
4	Proforma 9/30/17 Balance with org costs	\$3,246
	Proforma 9/30/17 Balance	<u>0</u>
	Proforma Adjustment	<u>\$3,246</u>
	To adjust test year 9/30/17 balance of accum amort of org. costs For additional support, please see schedule 3B	
	Total Proforma Adjustments to Accumulated Depreciation and Amortization	<u>\$18,039</u>

Accumulated Amortization of Utility Plant Acquisition Adjustment

5	Proforma 9/30/17 Balance with org costs	\$ <u>(2,265)</u>
	Proforma 9/30/17 Balance	<u>-</u>
	Proforma Adjustment	\$ <u>(2,265)</u>
	To adjust test year 9/30/17 balance of amortization of Rosebrook 10% premium (\$36,234 / 8yrs. / 1/2 yr)	
	Total Proforma Adjustments to Accumulated Amortization of Utility Plant Acq Adj	\$ <u>(2,265)</u>

Material & Supplies

6	Proforma 9/30/17 Balance	\$ 4,800
	4 Quarters Average 9/30/17 Balance	<u>4,952</u>
	Proforma Adjustment	\$ <u>(152)</u>
	To adjust 4 quarter average test year to 9/30/17 balance	
	Total Proforma Adjustments to Material & Supplies	\$ <u>(152)</u>

Prepayments

7	Proforma 9/30/17 Balance	\$4,154
	4 Quarters Average 9/30/17 Balance	<u>3,651</u>
	Proforma Adjustment	<u>\$503</u>
	To adjust 4 quarter average test year to 9/30/17 balance	
	Total Proforma Adjustments to Prepayment	<u>\$503</u>

Contribution in Aid of Construction

8	Proforma 9/30/17 Balance	(\$446,331)
	4 Quarters Average 9/30/17 Balance	<u>(448,114)</u>
	Proforma Adjustment	<u>\$1,783</u>
	To adjust 4 quarters average test year to 9/30/17 balance.	

Accumulated Amortization of CIAC

9	Proforma 9/30/17 Balance	\$176,537
	4 Quarters Average 9/30/17 Balance	<u>172,080</u>
	Proforma Adjustment	<u>\$4,457</u>
	To adjust 4 quarter average test year to 9/30/17 balance	

Accumulated Deferred income Taxes

10	Proforma 9/30/17 Balance	\$ (97,877)
	4 Quarters Average 9/30/17 Balance	<u>(89,814)</u>
	Proforma Adjustment	<u>\$ (8,063)</u>
	To adjust 4 quarter average test year to 9/30/17 balance	

Cash Working Capital

11	Proforma 9/30/17 Balance	\$ 26,376
	4 Quarters Average 9/30/17 Balance	<u>26,210</u>
	Proforma Adjustment	<u>\$ 165</u>

Total Proforma Adjustments to Cash Working Capital
See Schedule 3C for calculation of cash working capital.

AWC Rosebrook Water**Schedule 3B****Plant / Accumulated Depreciation / Depreciation Expense****To reclass Due Dilligence Costs (183-15-09) Organizational Costs to Plant**

PUC			Amort.	Annual	Accum
<u>Acct. No.</u>	<u>Description</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	<u>Amort</u>
301	Organizational costs	\$ 51,931	12.50%	\$ 6,491	\$ 3,246

AWC Rosebrook Water**Schedule 3C****Working Capital**

	10/1/16 - 9/30/2017 Proforma <u>Amount</u>	10/1/16 - 9/30/2017 Actual <u>Amount</u>
Operating and Maintenance Expenses	\$213,916	\$212,574
45/365	<u>12.33%</u>	<u>12.33%</u>
Working Capital	<u>\$26,376</u>	<u>\$26,210</u>

AWC Rosebrook Water

Schedule 4

Rate of Return Information

Page 1 of 2

Proforma Overall Rate of Return		Component Ratio		Component Cost Rate		Weighted Average Cost Rate
Equity Capital		51.81%		11.60%		6.01%
Long Term Debt		48.19%		3.67%		1.77%
Total Capital		100.00%				7.78%

Actual Overall Rate of Return		Component Ratio		Component Cost Rate		Weighted Average Cost Rate
Equity Capital		51.81%		9.60%		4.97%
Long Term Debt		48.19%		3.67%		1.77%
Total Capital		100.00%				6.74%

Capital Structure for Ratemaking Purposes	9/30/2017 Proforma		9/30/2017 Proforma %		9/30/2017 Actual		9/30/2017 Actual %
Common Stock							
Other Paid in Capital	589,521		47.97%		589,521		47.97%
Retained Earnings	47,234		3.84%		47,234		3.84%
Total Equity	\$ 636,755		51.81%		\$ 636,755		51.81%
Long Term Debt	\$592,281		48.19%		\$592,281		48.19%
Total Capital	\$ 1,229,036		100.00%		\$ 1,229,036		100.00%

Long Term Debt	9/30/2017 Proforma		9/30/2017 Actual				
CoBank Loans	\$592,281		\$592,281				
Total Long Term Debt	\$592,281		\$592,281		\$0		\$0

Schedule 4
Page 2 of 2

Proforma Cost of Debt	9/30/2017 Amount		Interest Rate	Interest Expense	Amortization Of Fin Costs	Total Interest	Cost Rate
2014 CoBank Loan for \$300,000	\$205,080		3.68%	\$8,262	\$0	\$8,262	4.03%
2016 CoBank Loan for \$400,000	\$387,201		3.55%	\$13,500	\$0	\$13,500	3.49%
Total Cost of Debt	\$592,281			\$21,762	\$0	\$21,762	3.67%

Actual Cost of Debt	9/30/2017 Actual		Interest Rate	Interest Expense	Amortization Of Fin Costs	Total Interest	Cost Rate
2014 CoBank Loan for \$300,000	\$ 205,080		3.68%	\$ 8,262		\$ 8,262	4.03%
2016 CoBank Loan for \$400,000	387,201		3.55%	13,500		13,500	3.49%
Total Cost of Debt	\$592,281			\$21,762	\$ -	\$21,762	3.67%

Cost of Common Equity Capital

The Company is utilizing a cost of common equity of 11.6% for pro forma purposes.

Abenaki / Rosebrook

Calculation of Rates

Revenue Requirement from Quarterly Charges

<u>Meter Size</u>	<u>Gallons</u> 10/01/2016 - 9/30/2017	<u>Percentage</u>	Revenue Requirement as % of <u>Gallons</u>	<u>Number of</u> <u>Meters</u>	<u>Present</u> <u>Quarterly</u> <u>Charge</u>	<u>Proposed</u> <u>Quarterly</u> <u>Charge</u>	Revenue Requirement from Prop Qtrly Ch	<u>Proof of</u> <u>Test Year</u> <u>Revenues</u>	
5/8	1,710,005	4.85%	\$ 18,064.90	107	29.72	59.44	\$ 25,440	12,720	
5/8 x 3/4	4,453,500	12.64%	47,048	254	29.72	59.44	60,391	30,196	
1	2,590,378	7.35%	27,365	46	98.08	196.16	36,093	18,047	
2	1,879,074	5.33%	19,851	2	318.01	636.02	5,088	2,544	
3	1,090,834	3.10%	11,524	3	692.48	1,384.96	16,620	8,310	
6	23,520,013	66.74%	248,471	1	2,772.88	5,545.76	22,183	11,092	
	<u>35,243,804</u>	<u>100.00%</u>	<u>\$ 372,324</u>	<u>413</u>			<u>\$ 165,816</u>	<u>\$ 82,908</u>	30.62%

Revenue Requirement from Consumptions Charges

Per 1,000 gallons

	\$ 206,508	55.46%	<u>187,849</u>	69.38%
	5.86		\$ 270,757	

Difference \$ 665

0.25%

SPSt. Cyr
12/4/2017

NHPUC Docket DW 17-165

Step Increase

Abenaki Water Company - Rosebrook

Page 1 of 4

Revenue Requirement - Step Increase for 2018 Additions to Plant

	<u>Amount</u>
RATE BASE	
2017 Plant in Service	\$ 210,000
Less: Accumulated Depreciation	<u>3,438</u>
NET PLANT IN SERVICE	\$ 206,563
Cash Working Capital	<u>-</u>
TOTAL RATE BASE	<u>\$ 206,563</u>
Return on Additional Plant @ 5.12%	<u>\$ 10,570</u>
O&M Expenses	\$ -
Depreciation Expense	6,875
State Utility Property Taxes	1,396
Local Property Taxes	3,804
Federal and State Income Taxes	<u>-</u>
Operating Expenses	<u>\$ 12,075</u>
Additional Revenue Requirement	<u>\$ 22,645</u>
Total Proposed Proforma Operating Revenues	<u>\$ 372,324</u>
% Increase associated with Step Increase	<u>6.08%</u>

SPSt. Cyr
11/29/2017

NHPUC Docket DW 17-165

Step Increase
Page 2 of 4

Abenaki Water Company - Rosebrook

Rate of Return

Debt Financing	<u>Amount</u>	<u>Interest Rate</u>	<u>Annual Interest</u>	<u>Annual Amortization of Fin Costs</u>	<u>Total Annual Cost of Debt</u>	<u>Annual Cost Rate</u>
	\$ 128,000	5.00%	\$ 6,400	\$ 150	\$ 6,550	5.12%

Calculation of projected amortization of finance costs:

Estimated 2018 Financing Costs:

Bank Fees	\$ 500
Consultant Fees	2,500
Other Fees	-
Total	<u>\$ 3,000</u>
Loan Term (Years)	<u>20</u>
Annual Amortization of Finance Costs	<u>\$ 150</u>

SPSt. Cyr
11/29/2017

NHPUC Docket DW 17-165

Step Increase
Page 3 of 4

Abenaki Water Company - Rosebrook

2018 Additions to plant and related depreciation

Project Description	Account Description	Account	Amount	Depr Rate	Annual Depr	Accum Depr	Net Plant
Install SCADA system	Structures	304	20,000	10.00%	2,000	1,000	19,000
Pressure Reduction Design	Structures	304	70,000	2.50%	1,750	875	69,125
Construct Pump Station(s)	Structures	304	100,000	2.50%	2,500	1,250	98,750
Lower Services / Install Curb Stops Replace and Install New Services	Services	333	15,000	2.50%	375	188	14,813
Purchase and Install Meters	Meters	334	5,000	5.00%	250	125	4,875
Total			<u>\$ 210,000</u>		<u>\$ 6,875</u>	<u>\$ 3,438</u>	<u>\$ 206,563</u>

SPSt. Cyr
11/29/2017

NHPUC Docket DW 17-165

Step Increase

Abenaki Water Company - Rosebrook

Page 4 of 4

PROPERTY TAXES

	<u>Amount</u>
Property Tax Expense:	
State Utility Property Taxes	
State Assessed Value as of April 1, 2016	\$ 750,200
Net Plant at 12/31/15	<u>732,776</u>
Assessment Adjustment Percentage	102.38%
Net Book Value of 2018 Additions to Plant	<u>\$ 206,563</u>
Assessment Adjustment Percentage applied to Net Book Value of 2017 Additions to Plant	\$ 211,474
State Property Tax Rate (per \$1,000)	<u>6.60</u>
State Utility Property Taxes	<u>\$ 1,396</u>
Town of Carroll Property Taxes	
Assessed Vaulation	\$ 625,907
Net Plant in Service, 12/31/15	<u>565,878</u>
Assessment Adjustment Percentage	<u>110.61%</u>
Net Book Value of 2018 Additions to Plant	<u>\$ 206,563</u>
Assessment Adjustment Percentage applied to Net Book Value of 2017 Additions to Plant	\$ 228,475
Local Property Tax Rate (per \$1,000)	<u>16.65</u>
Local Property Taxes	<u>\$ 3,804</u>

Note: Assumes that Net Boood Value of 2018 Additions to Plant are in Town of Carroll.SPSt. Cyr
11/29/2017