

Stephen P. St. Cyr & Associates

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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 19-_____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

August 14, 2019

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 petition, prefiled testimony and financial exhibits. In addition, I am available to represent the Lakes Region Water Company ("LRWC" or "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 ("PUC"), 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 secure a term loan of up to 20 years and a maximum of \$633,000 to (1) reimburse the Company

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for funds expended at Dockham Shore ("DS") in connection with the replacement of the pump station, (2) to replace the pump station at its Wildwood ("Wd") system, (3) to replace 1000' 4" water mains on Paradise Shores Road and (4) to replace 850' 4" water main & service connections on Robin Lane. Please see Mr. Mason's testimony for a description of the projects.

Q. Before you describe the financing, please provide some background.

A. In DW 16-619 the PUC approved (PUC Order No. 25,964) LRWC's acquisition of the assets and utility franchise of Dockham Shores Estates Water Company. The Commission also authorized LRWC to borrow \$135,000 to finance the acquisition of the utility assets and to make significant improvements to the water system. Finally, the Commission approved modifications to DS's tariff, as well as a step adjustment in rates not to exceed \$6,620 following construction of capital improvements. LRWC initially petitioned for a step adjustment of \$53,894. LRWC ultimately assented to Staff's recommendation to limit the step adjustment to the previously approved amount of \$6,620. As such, the Company is now petitioning to reimburse itself for funds expended at Dockham Shore ("DS") in connection with the replacement of the pump station. It should be noted that Company plans to file a separate petition requesting a DS rate increase to recover its investment and pay the loan.

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In DW 17-176 the PUC approved (PUC Order No. 26,144) LRWC's acquisition of the assets and utility franchise of Wildwood Water Company. After assessing the condition of the pump station, pumping equipment, treatment equipment, storage tank, etc, The Company determined that much of the plant was at high risk, needed attention and over due to be replaced.

In Paradise Shores, much of the mains and services are old, and, from time to time, break requiring either maintenance or replacement. Also, the water system experienced an increase in water loss in 2018. As such, the Company determined that certain mains and services needed to be replaced.

Q. What are the total costs of the Projects?

A. The total costs of the Projects are as follows:

DS Pump Station	\$215,000
Wd Pump Station	260,000
Paradise Shore Road main	92,000
Robin Lane main, services and gate valves	<u>66,000</u>
Total	<u>\$633,000</u>

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

A. The Company proposes to borrow \$633,000 from CoBank.

Q. What are the terms and conditions of the CoBank financing?

A. The proposed terms and conditions are 20 years at an estimated 5.50% interest rate. Such terms and conditions are consistent with the recently PUC approved CoBank financing for the Company.

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 replacement of DS and Wd pump stations and the PS mains and services increases reliability of the systems.

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

A. The Company plans to file a separate DS rate petition to increase rates to DS customers. Depending on its 2019 financial results, the Company is tentatively planning on filing a LRWC rate petition in 2020 to increase rates to LRWC customers.

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

A. No.

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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, 2018 account balances. Column (d) identifies the pro forma adjustments to the December 31, 2018 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2019 / 2020 additions to plant and related financings.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$338,389 represents the total additions to utility plant, including the Wd pump station, Paradise Shore Road main and Robin Lane main and services net of the related retired plant. Please note that the DS additions to plant are already reflected in the 12/31/18 balances.

The second adjustment to Accumulated Depreciation for (\$72,671) represents the net of the retired plant and related half year depreciation on additions to utility plant.

The third adjustment to Cash for \$197,368 is the net of the cash received from the CoBank loan, the funds expended on the plant, the projected increase in revenues less the projected increase in expenses.

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The fourth adjustment to Unamortized Debt Expense for \$7,600 represents the net of the financing costs and the amortization of such costs over 20 years, the life of the loan. The financing costs include a CoBank origination fee of \$4,000.

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 2019 / 2020 additions to plant and related financings.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for \$911 represents the net income impact of changes to revenue, operating expenses and interest expense.

The second adjustment to Other Long Term Debt for \$615,117 represents the net amount of borrowing \$633,000 and the first year repayment of principal on the loan of \$17,883.

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 2019 / 2020 additions to plant and related financings.

A. There are 5 adjustments to the Statement of Income.

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The first adjustment to Operating Revenue of \$52,131 represents the additional revenue needed in order to recover the Company's investment and to pay back the CoBank loan.

The second and third adjustments to Operating Expenses are for increases associated with depreciation and property taxes.

The fourth and fifth adjustments to Interest Expense and Amortization of Debt Expense 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 2018 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 acquisitions / improvements. The net addition of the debt will increase the debt to equity position.

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 JE#2 - the debt financing, JE#3 - the additions to plant, JE#7 - the repayment of the principal and interest on the loan and JE#8 - the anticipated receipt of revenue from the step increases.

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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. SPS-5 shows the projected increase, amounting to an increase in net revenue of \$44,059 or 3.59% for the LRWC customer. The projected rate increase allows the Company to recover its investment in the improvements and earn a return on such investments.

Q. Would you please explain SPS-6, Weighted Average Cost of Capital?

A. SPS-6 shows the amount of the financings, weighted average percentages, the interest rate on the CoBank loan, the interest expense, the amortization of the financing costs, the total interest, the cost rates and the weighted average cost of capital, namely 5.49%.

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

A. SPS-7 is a schedule of costs by plant account and the related depreciation rates, annual depreciation costs and the accumulated depreciation at a half year.

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Q. Would you please explain SPS-8, Property 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 sources of the funds are CoBank. The use of the funds is the DS pump station, the Wd pump station, the PS water main and the PS main and service replacements at Paradise Shore Road and Robin Lane.

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

A. The Company estimates that it will incur approximately \$8,000 in financing costs including the CoBank origination fees of \$4,000 and accounting fees of \$4,000 in order to pursue approval by the NHPUC.

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

A. The Company respectfully requests that the PUC approve the CoBank loan for a maximum of \$633,000 to replace the DS pump station, the Wd pump station and the PS mains and services at Paradise Shore Road and Robin Lane.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

08/13/19