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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY

DW 19-

PETITION TO APPROVE FINANCING FOR 2019 Ford F250 XL PICKUP TRUCK WITH UTILITY BODY

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.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to support the Company's effort to borrow
3 \$47,201 from Ford Motor Credit, which will allow it to purchase a 2019 Ford
4 F250 XL pickup truck. The pickup truck will be replacing an older 2010 truck
5 which can no longer do the job.

6 Q. Please describe the Ford Motor Credit loan.

7 A. The term of the loan is 6 years. The interest rate will be 0%.

8 Q. What other financing options did the Company consider?

9 A. Ford Motor Credit offered 3 pricing options as follows:

10 1. \$42,701 at "standard" interest rate of 7.44% over 5 years.

11 2. \$43,701 cash price

12 3. \$47,201 at 0% interest rate over 6 years.

13 Option 1 is more costly over the life of the loan. While Option 2 is less costly, the
14 Company prefers to preserve its cash given its other cash requirements and
15 believes that such assets should be financed and recovered over the life of the
16 truck. While Option 3 is less costly than Option 1 and more costly than Option 2,
17 Option 3 allows the Company to preserve its cash and pay no interest over the 6
18 year term of the loan. The Company also considered using its existing short term
19 line of credit. The current interest rate on the short term line of credit is 5%.

20 Option 3 is less costly than the short term line of credit, plus the pickup truck is a
21 long term asset that would have to be refinanced at some point.

22

1 Q. When does the Company anticipate entering into the loan agreement with Ford
2 Motor Credit?

3 A. The Company anticipates entering into the loan agreement as soon as the
4 Commission approves the financing.

5 Q. Is there anything else that you would like to discuss before you describe the
6 financial schedules?

7 A. No.

8 Q. Has the Company determined the impact of the financing on the Company's
9 financial statements?

10 A. Yes. The purchase of the truck and the financing at 0% interest rate over 6 years
11 has minimal impact on the Company financial statements. I have prepared
12 proforma financial statements identified as SPS 1 – SPS 7.

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

15 A. Yes. Generally, column (a) identifies the Line No., column (b) identifies the
16 account title and PUC account number. Column (c) reflects the current year end
17 balance, namely December 31, 2018. Column (d) identifies the adjustments for
18 the truck financing to the December 31, 2018 account balances. Column (e) is
19 the sum of columns (c) and (d).

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

21 A. Schedule SPS 1-1 contains 4 adjustments.

22 The first adjustment reflects the net of the addition to utility plant for the
23 purchase price of the 2019 Ford F250 XL with utility body of \$47,201 and the

1 retirement from utility plant of the original cost of the 2010 truck of \$33,164
2 being retired.

3 The second adjustment reflects the net of a half depreciation of \$3,371 on
4 the 2019 addition to plant and the \$33,164 retirement costs. Please note that the
5 2010 truck was fully depreciated.

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

9 The fourth adjustment reflects the net of the estimated financing costs less
10 the amortization of such financing costs over 6 years.

11 Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and
12 Liabilities.

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

14 Q. Please explain the adjustments on reflected on SPS 1–2.

15 A. Schedule SPS 1-2 contains 2 adjustments.

16 The first adjustment reflects the impact on net income. It reflects more
17 depreciation and amortization of debt costs resulting in less net income.

18 The second adjustment reflects the net of the financing.

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

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

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

22 A. There are 2 adjustments to the Statement of Income.

23 The first adjustment is the increase in depreciation expense.

- 1 The second adjustment is the increase in amortization of debt costs.
- 2 Q. Would you please explain Schedule SPS 3, entitled Capital Structure?
- 3 A. The Current Year Balance is the balance at December 31, 2018 and is also
4 reflected on the Balance Sheet (see SPS 1-2). The adjustments are the change in
5 retained earnings due to the decrease in net income and the change in long term
6 debt due to the financing. The related capitalization ratios are shown on the
7 bottom half of the schedule. The Company's December 31, 2018 debt to equity
8 position is weighted toward debt due in part to its negative retained earnings. The
9 financing has only minimal impact on the debt to equity position. In recent years
10 the Company's net income has reduced the negative retained earnings. Also, in
11 recent years, the Company's shareholder has put in additional paid in capital to
12 help balance the capital structure.
- 13 Q. Please explain Schedule SPS-4, entitled Journal Entries.
- 14 A. Schedule SPS-4 identifies the specific journal entries used to develop the
15 proforma financial statements. The significant journal entries are JE#3, the
16 borrowing of funds from Ford Motor Credit, and JE#4, the purchase of the Ford
17 F250 XL pickup truck and JE#6, which shows the 1-year principal and no interest
18 payment on the loan.
- 19 Q. Would you like to explain SPS-5?
- 20 A. SPS-5 shows the plant, accumulated depreciation and depreciation expense. The
21 truck is being depreciated over 7 years.
- 22 Q. Would please explain SPS-6?
- 23 A. SPS-6 shows the source and use of the funds.

1 Q. Would you please explain SPS-7?

2 A. SPS-7 shows the estimated costs to pursue PUC approval of the financing. The
3 Company believes that this is a simple financing in the ordinary course of
4 business. As such, financing costs should be minimal.

5 Q. How does the Company propose to repay the Ford Motor Credit loan debt?

6 A. The Company has adequate cash to pay the monthly principal and no interest on
7 the loan in the short term. Eventually, the asset will be added to rate base and the
8 loan will be added to the capital structure in the determination of future rates.

9 Q. What does the Company propose to do with the costs of the financing?

10 A. The costs associated with the PUC approval will be deferred and amortized over
11 the term of the 6 year term of the loan.

12 Q. Why should the Commission approve the financing?

13 A. The Commission should approve the financing because it is in the best interest of
14 the Company and its customers. The financing will allow the Company to
15 purchase the 2019 Ford F250 XL pickup truck to take over the duties of an older
16 truck which can no longer do the job.

17 Q. When should the Commission approve the financing?

18 A. The Company respectfully requests that the Commission approve the financing as
19 soon as possible but no later than October 31, 2019 so that the Company can
20 borrow the funds and purchase the truck.

21 Q. Is there anything else that the Company would like to bring to the Commission's
22 attention?

23 A. No.

- 1 Q. Please summarize the approvals that the Company is requesting.
- 2 A. The Company respectfully requests that the PUC approve the financing by Ford
3 Motor Credit in the amount of \$47,201 under the terms stated previously.
- 4 Q. Does this conclude your testimony?
- 5 A. Yes.