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Direct Testimony of Stephen P. St. Cyr in DW 19-177

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 Lakes Region Water Company ("LRWC" or "Company")?

A. Yes. St. Cyr & Associates has been asked to prepare the various Dockham Shores ("DS") temporary rate case schedules, to prepare written testimony on temporary rates and to prepare other temporary rate case filing requirements.

Q. Are you familiar with the pending temporary rate application for DS 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 for DS.

Q. What is the test year for the DS temporary rate filing?

A. The Company is utilizing the twelve months ended December 31, 2018.

Q. Is there anything that you would like to explain before addressing the schedules?

A. Yes. The schedules for temporary rates are essentially the same as the schedules for permanent rates except that most of the pro forma adjustments have been eliminated.

Q. Why were the pro forma adjustments eliminated?

A. RSA 378:27 provides that temporary rates shall be calculated based on "the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports." In order to comply with this requirement for temporary rates, the Company eliminated most but not all of the pro forma adjustments.

Q. Were there any reasons to question or adjust temporary rates based on a test year average?

A. Yes. The Company included a pro forma adjustment to reflect all assets placed in service during the test year including a full year of depreciation expense and accumulated depreciation. This is adjustment is required in order to produce a rate that is just and reasonable, particularly because the DS improvements and related expenditures are a significant addition to rate base and were critical to maintain service but produced no new customer or revenue growth. The plant additions are known and measurable and all the additions were fully in use for the customers' benefit at December 31, 2018. As such, the Company proposes a pro forma adjustment to reflect in rates the cost of improvements placed in service during the test year as part of its temporary rate requests.

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

A. No.

Q. Then, would you please summarize the schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for Temporary Rates" for the Test Year ended December 31, 2018 summarizes the supporting schedules. The actual revenue deficiency for the DS for the test year amounts to -$16,471. It is based upon an actual test year with a 5 quarter average rate base of $141,098 as summarized in Schedule 3, column g. DS actual rate of return is 1.04% for the actual test year. The rate of return of 1.04%, when multiplied by the rate base of $141,098, results in an operating income requirement of $1,467. As shown on Schedule 1, column b, line 11, the actual net operating income for DS for the test year was -$15,003. The operating income required, less the net operating income, results in an operating income deficiency before taxes of -$16,471. DS did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for DS of -$16,471.

The pro forma revenue deficiency for DS for the test year amounts to zero. It is based upon a pro formed test year rate base of $356,203, as summarized in Schedule 3, column d. DS is utilizing a pro formed rate of return of 5.67% for the pro formed test year. The pro formed rate of return of 5.67% when multiplied by the rate base of $356,203, results in an operating net income requirement of $20,206. As shown on Schedule 1, column d, line 11, the pro formed net operating income for DS for the test year is $20,207. The operating income required, less the net operating income, results in a deficiency of zero.

The tax effect of the deficiency is zero, resulting in a revenue deficiency for DS of zero.

Q. Would you please explain Schedule 1 and supporting schedules?

Schedule 1 reflects DS' Operating Income Statement. Column b shows the actual test year results for DS. Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A – 1C. Column d shows the proforma test year results.

During the twelve months ended December 31, 2018, the actual operating revenues amounted to $36,840. At December 31, 2018 DS had 61 customers. DS has no growth in the number of customers during 2018. DS customers consumed 2,509,240 gallons of water.

DS' total operating expenses amounted to $51,843. The 2018 Net Operating Income amounted to -$15,003. Net Income for 2018 was -$16,162.

The Company has made 2 proforma adjustments to operating revenues totaling $35,210. The specific proforma adjustments are identified on Schedule 1A. A brief explanation is as follows:

<u>Proforma Adjustment to Operating Revenues for Temporary Rates</u>

1. Operating Revenues - Step Adjustment - $6,620.

In DW 16-619 the PUC approved LRWC's request to include certain plant in rate base and increase its DS customer's annual revenues by $6,620.

2. Operating Revenues – Amount Necessary to Earn Return and Cover Operating Costs - $35,019.

The Company has increased pro forma test year revenues for the proposed

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amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

The Total Pro forma Adjustments to Operating Revenue amounts to $41,639.

Proforma Adjustments to Operating Expense for Temporary Rates

The Company made only one pro forma adjustment to operating expenses for temporary rates, namely $6,429 for depreciation expense.

3. Operating and Maintenance Expenses – PUC Audit - $0.

4. Operating and Maintenance Expenses – Source of Supply – $0.

5. Operating and Maintenance Expenses - Treatment - $0.

6. Operating and Maintenance Expense – T&D Maintenance - $0.

7. Operating and Maintenance Expense – A&G Expenses – $0.

The total proposed pro forma adjustment to O&M expenses is $0.

8. Depreciation Expense - $6,429.

The Company is proposing to include the additional half year depreciation on the 2018 additions to plant. The amount of the depreciation expense increase is $6,429.

9. Amortization of Organizational Costs - $0.

10. Taxes other than Income – State Utility Property Taxes - $0.

11. Taxes other than Income – Town of Gilford Property Taxes - $0.

12. Federal Income Taxes - $0.

13. State Business Taxes - $0.

The total pro forma adjustments to Operating Expenses amount to $6,429.

The net of the pro forma adjustments to operating revenue $41,639 and the pro forma adjustments to operating expenses $6,249 results in net pro forma adjustment of $35,210. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $20,207.

The pro forma test year net operating income of $20,207 allows the Company to cover its expenses and earn a 5.67% return on its investments.

Q. Are there additional schedules that support Schedule 1?

A. Yes, Schedule 1B & 1C. Schedule 1B shows the income tax computation. Because the equity component of DS' cost of capital in negative, DS is utilizing 0.00%, resulting in no federal income or state business taxes. Schedule 1C shows the effective tax factor.

Q. Please describe Schedule 2, the DS Balance Sheets.

A. DS has $381,438 total assets at the end of 2018. $351,594 of the $381,438 total assets is net utility plant, all of which is completed and providing service to customers. In 2018 DS added the new pump station building, new generator, new pumps and a new tank. DS also has $38,393 of organizational costs related to pursuing and receiving PUC approval of the purchase of the water system.

DS has total equity capital and liabilities of $381,438 at the end of the year. Total equity capital amounts to -$5,297. The negative equity is the result of net losses and negative retained earnings. DS has long term debt owed to CoBank amounting to $128,986. DS also has $243,676 of miscellaneous current and accrued liabilities owed to LRWC.

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

A. Schedule 3 reflects the Company's Rate Base for both the actual 5 quarter average test year and the 2018 pro forma test year. Columns b – f shows the actual quarter end balances. Column g shows the 5 quarter average balances. Column h shows the pro forma adjustments. Column i shows the 2018 pro forma balances. The balances are further supported by Schedules 3A, 3B and 3C.

The rate base consists of Utility Plant in Service less Accumulated Depreciation, plus Material and Supplies, less Contributions in Aid of Construction plus Accumulated Amortization of CIAC and Cash Working Capital.

The total 5 quarter average rate base amounts to $141,098. The total pro formed year end rate base balances amounts to $356,203.

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Q. Would you please explain Schedule 3A, Rate Base – Pro forma Adjustments?

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, DS believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, DS believes that other rate base items should be fully reflected in rates. As such, DS has adjusted the actual 5 quarter average balances to year end balances. The rate base items affected by the reflection of year end balances are (1) plant in service, (3) accumulated depreciation, (6) material and supplies and (7) accumulated amortization of CIAC. Please note that LRWC has not yet separated accumulated deferred income taxes related to the DS book and tax depreciation differences.

In addition to the pro forma adjustments to rate base for the year end balances, the Company made only one other pro forma adjustments for temporary rates, namely $6,429 for Accumulated Depreciation.

2. Plant in Service – 2018 Organization Costs - $0.

4. Accumulated Depreciation - $6,429.

The Company is proposing to include the additional half year depreciation on the 2018 additions to plant. The amount of the depreciation expense increase is $6,429, resulting in the same increase in accumulated depreciation.

5. Accumulated Amortization of Organization Costs - $0.

9. Cash Working Capital - $0.

The total pro forma adjustments to Rate Base amount to $215,133.

Q. Please explain Schedule 3B.

A. The Company is not making this adjustment for temporary rates.

Q. Please explain Schedule 3C.

A. Schedule 3C shows the computation of cash working capital for 2018 pro forma amount and 2018 actual amount. There is no pro forma adjustment to cash working capital for temporary rates.

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

A. Schedule 4 reflects the overall rate of return for both the actual test year and the pro forma test year. The weighted average rate of return for the actual test year is 1.04%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return.

The weighted average rate of return for the pro forma test year is 5.67%. It was developed by taking the pro forma component ratios times the pro forma component cost rates to determine the pro forma weighted average cost rate. The sum of the pro forma cost rates for equity and debt equals the pro forma weighted average rate of return.

Schedule 4 also reflects both the capital structure and the capital ratios. DS has provided the capital structure for the actual test year and the pro forma test year. Since Dockham's equity capital is negative, the Company is utilizing the long-term debt costs rate for the rate of return.

In addition, Schedule 4 also reflects the long-term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/18 DS has $128,986 of outstanding long-term debt with related interest of $1,836 and a cost of debt of 1.42%. It should be noted that 2018 only reflects a partial year of interest expenses.

Q. Please explain the Report of Proposed Rate Changes.

A. If DS filing is approved as submitted, its total water Operating Revenues will amount to $78,059. The Total Residential Sales of Water amount to $78,479 comes from DS 61 metered customers.

Q. Is the Company proposing any changes to the methodology used in calculating the rates?

A. No. However, the Company recommends that the Commission and Staff consider options for rate consolidate in this proceeding. Consolidated rates benefits all customers by reducing "rate shock" that can occur when significant capital improvements are required in a particular system. Over time, this benefits all customers as each system is upgraded over time.

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

The Company respectfully requests that the Commissioners approve an increase in annual revenues of $35,019 for temporary rates.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
01/09/2020