

1   **STATE OF NEW HAMPSHIRE**

2   **PUBLIC UTILITIES COMMISSION**

3   **ABENAKI WATER COMPANY – TIOGA BELMONT DIVISION**

4   **DW 20-xxx**

5         **PETITION TO APPROVE NH DWSRF FINANCING FOR WHITE ROCK**  
6         **IMPROVEMENTS**

7  
8   **PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

9         Q.         What is your name and business address?

10        A.         My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,  
11                     Biddeford, ME.

12        Q.         Who is your employer?

13        A.         My employer is Stephen P. St. Cyr & Associates.

14        Q.         What are your responsibilities in this case?

15        A.         My responsibilities are to support Abenaki Water Company (“AWC”) – White  
16                     Rock Division’s (“WR”) financing request and to prepare the financial schedules  
17                     and prefiled direct testimony which describes the financing and the financial  
18                     schedules. In addition, I am prepared to testify in support of financing.

19        Q.         Have you prepared testimony before this Commission?

20        A.         Yes, I have prepared and presented testimony in numerous cases before the Public  
21                     Utilities Commission, including requests for new and expanded franchises,  
22                     requests for approval of Drinking Water & Groundwater Trust Fund (“DWGTF”),  
23                     State Revolving Funds (“SRF”), commercial bank and owner financings and  
24                     requests for rate increases.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to support the AWC's effort to borrow \$400,000  
3 from DWSRF, which will allow it to develop a new well source, construct a new  
4 treatment facility, line two existing tanks and add distribution valves to the  
5 system. Please note that the projected amounts are estimated and subject to  
6 change once the Company begins to explore for the new source. The system is  
7 sorely in need of a new source as evidenced by the relatively low production and  
8 the dramatic need for bulk water purchases to replenish the water supply during  
9 water leaks. See Mr. LaChance and Mr. Gallo's testimonies.

10 Q. Please describe the NH DWSRF loan for \$400,000.

11 A. The term of the loan is 20 years. The interest rate will be 1.7%.

12 Q. When does AWC anticipate entering into the loan agreement with NHDES?

13 A. AWC anticipates entering into the loan agreement as soon as the Commission  
14 approves the financing.

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

17 A. No.

18 Q. Has AWC WR determined the impact of the financing on the Company's  
19 financial statements?

20 A. Yes. The development of a new source, the addition of a new treatment facility  
21 and other improvements and the DWSRF financing at 1.70% interest rate over 20  
22 years will have a significant impact on the Company's financial statements. I  
23 have prepared pro forma financial statements identified as SPS 1 – SPS 10.

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

3 A. Yes. Generally, column (a) identifies the Line No., column (b) identifies the  
4 account title and PUC account number. Column (c) reflects 2019 Total Company  
5 year end balance. Column (d) identifies the adjustments for the WR  
6 Improvements and the financing to the 2019 account balances. Column (e) is the  
7 sum of columns (c) and (d).

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

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

10 The first adjustment reflects the addition to utility plant for the WR  
11 Improvements amounting to \$400,000. There are no retirements since the  
12 improvements are all new additions.

13 The second adjustment reflects a half depreciation of \$6,753 on the 2020  
14 addition to plant.

15 The third adjustment reflects the reduction in cash. While the change in  
16 cash is negative, it is what has to be done now and it is in the Company and  
17 customers best interest both short term and long-term. At some point, the  
18 addition to plant and the additional debt will be reflected in rates.

19 The fourth adjustment reflects the net of the estimated financing costs less  
20 the amortization of such financing costs over 20 years.

21

22

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

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

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

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

6 The first adjustment reflects the impact on net income, namely an increase of  
7 \$6,631. It reflects projected increase revenue less projected increase in expenses  
8 such as depreciation, property taxes and interest expense.

9 The second adjustment reflects the net of the financing of \$400,000, consisting of  
10 the initial borrowing of \$400,000 less the first year repayment of principle.

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

12 A. The description of the columns is the same as SPS 1-1, except that the Company  
13 added the Total Company Statement of Income.

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

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

16 The first adjustment is the projected increase in operating revenues. Please see  
17 SPS-5.

18 The second adjustment is the projected increase in depreciation expense for a ½  
19 year depreciation on the 2020 plant in service. See SPS-7.

20 The third adjustment is the projected increase in state and local property taxes.  
21 See SPS-8.

22 The fourth adjustment is the projected increase in interest expense on the DWSRF  
23 loan.

1 The fifth adjustment is the projected increase in amortization of debt expense.

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

3 A. The Current Year Balance is the balance at December 31, 2019 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 increase in net income and the change in long term  
6 debt due to the DWSRF financing. The related capitalization ratios are shown on  
7 the bottom half of the schedule. The Total Company's December 31, 2019 debt  
8 to equity position is weighted toward equity. After the debt financing, the capital  
9 structure will be more balanced. As noted in Mr. LaChance's testimony, debt is  
10 less expensive to service than equity. With the projected increase in revenues,  
11 AWC WR projects that over time the weighting will be closer to 50%/50% equity  
12 to debt.

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#2, the  
16 borrowing of funds from NH DWSRF, JE#3, the expenditures related to the WR  
17 Improvements, JE#7, the first year principal and interest payment on the loan and  
18 JE#8, the projected increase in revenues.

19 Q. Would you like to explain SPS-5?

20 A. SPS-5 shows the plant additions and accumulated depreciation, resulting in a  
21 projected total additional rate base of \$393,248. SPS-5 also shows the projected  
22 rate of return of 1.79% applied to the additional rate base, resulting in a return on  
23 investment of \$7,047. In addition, SPS-5 shows the increase in operating

1 expenses amounting to \$23,612. Finally, SPS-5 shows an increase in the revenue  
2 required of \$30,659. It is a significant increase needed to support the significant  
3 investment.

4 Q. Would you please explain SPS-6?

5 A. SPS-6 shows the weighted average cost of capital amounting to 1.79%.  
6 Fortunately, for the Company, the funds are available and the interest rate is  
7 attractive.

8 Q. Please explain SPS-7.

9 A. SPS-7 shows the plant, accumulated depreciation and depreciation expense.

10 Q. Please explain SPS-8.

11 A. SPS-8 shows the projected increase in property taxes as well as the combined  
12 state and local property tax rate and percent of assessed value to net plant.

13 Q. Please explain SPS-9.

14 A. SPS-9 shows the source and use of the funds.

15 Q. Would you please explain SPS-10?

16 A. SPS-10 shows the estimated costs to pursue PUC approval of the financing.  
17 Given the emergency nature of the financing, AWC WR desires that the PUC and  
18 its Staff expedite the review and approval process.

19 Q. How does the AWC WR propose to repay the NH DWSRF loan debt?

20 A. AWC WR experienced a significant net loss in 2019. See SPS-2. AWC WR's  
21 rates/revenue will have to increase in order to reflect the assets in rate base and  
22 the loan in the capital structure.

23

1 Q. What does the AWC WR propose to do with the costs of the financing?

2 A. The costs associated with the PUC approval will be deferred and amortized over  
3 the term of the 20 year term of the loan.

4 Q. Why should the Commission approve the financing?

5 A. The Commission should approve the financing because it is in the best interest of  
6 the AWC WR and its customers. The financing will allow AWC WR to make the  
7 necessary improvements, which will increase needed water supply and increase  
8 system reliability.

9 Q. When should the Commission approve the financing?

10 A. AWC WR respectfully requests that the Commission approve the financing as  
11 soon as possible so that the AWC WR can borrow the funds, make the  
12 improvements, increase the system reliability and reduce the potential of bulk  
13 purchases of water.

14 Q. Is there anything else that AWC WR would like to bring to the Commission's  
15 attention?

16 A. No.

17 Q. Please summarize the approvals that AWC WR is requesting.

18 A. AWC WR respectfully requests that the PUC approve the financing of \$400,000  
19 by NH DWSRF under the terms stated previously.

20 Q. Does this conclude your testimony?

21 A. Yes.

22 SPSt. Cyr

23 05/15/20