

2 STATE OF NEW HAMPSHIRE

3 PUBLIC UTILITIES COMMISSION

4 HAMPSTEAD AREA WATER COMPANY, INC.

5 DW 20-

6 PETITION TO APPROVE SPECIAL CONTRACT FOR HERITAGE ESTATES

7 IN TOWN OF ATKINSON

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, Maine.

12 Q. Who is your employer?

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

14 Q. Generally, please describe the project.

15 A. The developer, GSDC Development Corp. ("GSDC"), shall construct a water  
16 distribution system consisting of 7 services and 1 hydrant.

17 Q. What are your responsibilities in this case?

18 A. My responsibilities are to support Hampstead Area Water Company, Inc's  
19 (Company or HAWC) effort to obtain Public Utilities Commission (PUC)  
20 approval of a special contract between the Company and GSDC, the developer of  
21 Heritage Estates. My responsibilities include preparing the financial exhibits and  
22 prefiled direct testimony which describes the reasons the special contract is  
23 needed. In addition, I am prepared to testify in support of this special contract.

1 Q. Have you prepared testimony before this Commission?

2 A. Yes, I have prepared and presented testimony in numerous cases before the Public  
3 Utilities Commission, including requests for new and expanded franchises,  
4 requests for approval of State Revolving Fund (SRF), commercial bank and  
5 owner financings and requests for rate and step increases.

6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to support the Company's effort to have the  
8 Commission approve a special contract with GSDC which will allow the  
9 Company to receive contributed plant and funds to pay the federal income and  
10 state business taxes on the value of the contributed plant.

11 Q. Why is a special contract needed for this matter?

12 A. HAWC's tariff currently does not allow the company to charge developers or its  
13 rate payers for the federal and state taxes on contributed plant. The company  
14 currently has a petition pending before the commission, docket DW 19-136,  
15 seeking to amend its tariff to allow it to charge developers for federal income and  
16 state business taxes generated by CIAC it receives from developers. Until the  
17 commission acts on that petition, the company must submit developer contracts  
18 such as this one for approval through special contract petition process so it can  
19 obtain commission approval to charge developers for federal income and state  
20 business taxes generated by CIAC it receives.

21 Q. Why should the Commission approve this special contract?

22 A. The Commission should approve this special contract because it is in the best  
23 interest of the Company and its customers to have developers pay for any federal

1 income and state business taxes generated by CIAC contributed to the company  
2 instead of the company's rate payers as a whole. If not approved the company  
3 will have to decide to either not accept the contributed plant or accept the  
4 contributed plant and either pass the tax onto to ratepayer or absorb the tax. The  
5 Company cannot and will not absorb the tax and would rather not pass the tax  
6 onto ratepayers. The developer will have to choose between paying such taxes on  
7 the contributed plant or building water systems that homeowners will ultimately  
8 be responsible for and have to pay the ongoing operation and maintenance and  
9 system improvements and replacements without any such experience.

10 Q. Is there anything else that you would like to say before describing the exhibits.

11 A. No

12 Q. Please go ahead and describe the exhibits.

13 A. The exhibits consist of balance sheet, statement of income, capital structure,  
14 journal entries, plant/CIAC, source and use of funds and estimated financing  
15 costs. The total plant costs to be contributed amount to \$36,417, consisting of  
16 \$30,417 and \$6,000 of services and hydrant. See SPS-5. Also, on SPS-5, is the  
17 calculation of the CIAC tax amounting to \$12,524. Because of the relatively  
18 small nature of the project, the impact on the financial statements is minimal. On  
19 the balance sheet, the Company has added the contributed plant to utility plant  
20 and CIAC and the related depreciation and amortization of CIAC to accumulated  
21 depreciation and accumulated amortization of CIAC. See SPS-1. On the  
22 statement of income, the Company recognized both the revenue and income taxes  
23 related to the tax on the contributed plant. The Company also recognizes the

1 depreciation expense and the amortization of CIAC. See SPS-2. The transactions  
2 have an insignificant impact on the capital structure. See SPS-3. The journal  
3 entries are identified on SPS-4. The most significant journal entries are #3 related  
4 to the receipt of cash, contributed plant and revenue and #7 related to the payment  
5 of federal income and state business taxes. The source of the funds is GCDC and  
6 the use is as previously described. See SPS-6. The projected cost of pursuing  
7 and receiving PUC approval is \$5,000, assuming a relatively straightforward and  
8 simple proceeding. See SPS-7.

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

11 A. Yes. It is noteworthy to reiterate that the special contract is necessary because the  
12 Company is awaiting PUC approval of its revised tariff related to CIAC. The  
13 delay in PUC approval is creating work, time and expense on the Company and  
14 time and work on the PUC.

15 Q. Is there anything else?

16 A. No.

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

18 A. The Company respectfully requests that the PUC approve the special contract  
19 submitted with this petition so that it can accept the contributed plant and receive  
20 the cash to pay the federal income and state business taxes generated by receiving  
21 CIAC from the developer.

22 Q. Does this conclude your testimony?

23 A. Yes.