DW 22-058

Bedford Waste Services Corp.

Written Direct Testimony of

Stephen P. St. Cyr

Bedford Waste Services Corp.

before the

New Hampshire Public Utilities Commission

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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 ("SPS&A"), which primarily provides accounting, management and regulatory services. SPS&A devotes a significant portion of the practice to serving utilities. SPS&A has a number of regulated water and sewer utilities among its clientele. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission ("PUC"). Prior to establishing SPS&A, 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 (but not certified in NH due to different certificate requirements).

Q. Is SPS&A presently providing services to Bedford Waste Services Corp. ("Bedford" or the "Company")?

A. Yes. SPS&A manages Bedford day to day operations including overseeing its operations and maintenance and providing administrative services such as billing, collection, etc. SPS&A also prepares financial statements and the PUC Annual Report. In addition, SPS&A assists Bedford in various regulatory filings including refinancing/financing of construction projects and adjusting rates. SPS&A has been engaged to prepare the various rate case exhibits, supporting schedules and written testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support Bedford's efforts to increase rates to its customers so as to reflect in rates its additions to plant and its expenses adjusted for known and measurable changes.

Q. Please provide an overview of the rate filing.

A. It has been approximately 17 years since its last rate case (DW 04-144). Since that time, Bedford has rejuvenated 1 leach field and replaced numerous pumps. In 2021, the test year, Bedford replaced 7 pumps amounting to $26,353. In 2022 Bedford has replaced 4 pumps year to date, amounting to $17,176. Bedford projects that it will replace 3 more pumps in 2022 and 7 pumps in 2023. The 2022 pumps and 2023 pumps are subject to the proposed Step 1 and Step 2, respectively. It should be noted that the pumps cost more in 2022 than 2021. While the costs are projected, the 2022 plant costs will be known and measureable during the course of the proceeding. The 2023 plant costs will be known and measureable before rates based on such costs will be effective. The current approved rate of return (from DW 04-144) is 8%. Bedford is proposing the same rate of return plus the amortization of financing costs. Bedford has recently filed for NHPUC approval to refinance / finance (DW 22-054) $201,743 from its owner, Mr. LaMontagne, over 15 years at a fixed interest of 8%. The funds will be used to refinance approximately $125,000 of the existing 2017 MCSB loan, to repay the owner $33,000 of APIC and STF, to pay $17,500 past due accrued liabilities and to pay $6,000 and $20,000 for financing costs and rate case expenditures, respectively. At 12/31/21 the capital structure consisted of -65% equity and 165% debt. With the additional debt financing associated with the refinancing / financing Bedford's capital structure is projected to consist of -42% equity and 142% debt. Since the total equity is negative, Bedford is utilizing the costs of debt of 8.09% for the proposed rate of return. With the increase in rate base and increases in expenses, rates and revenues also have to increase. Bedford believes that the proposed increase in rates / revenues is fair, reasonable and manageable and allows the Company to earn a fair and reasonable rate of return on its prudently incurred investments and pay for its necessary operating expenses. The proposed increase will enable the Company to continue to provide good quality sewer service with good reliability and a good price.

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

A. No.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through ~~5~~ 8 inclusive, with related pages and attachments?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company.

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2021.

Q. Would you summarize the schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2021"?

A. Yes. This schedule summarizes the supporting schedules. The actual revenue deficiency for the test period amounts to $23,719. It is based upon a 5 quarter average balance for 2021 of $92,866 as summarized in Schedule 3. The Company is utilizing its previously approved rate of return of 8.00% for the actual test year. The actual rate of return of 8.00%, when multiplied by the rate base of $92,866, results in an operating income requirement of $7,429. As shown on Schedule 1, the actual net operating income for the test period was ($16,290). The operating income requirement less the net operating income results in an operating income deficiency of $23,719. The tax effect on the operating income deficiency is $0, resulting in a revenue deficiency of $23,719.

The pro forma revenue deficiency for the test year amounts to $0. The Company made a few adjustments to its rate base, related to adjusting the 5 quarter average rate base to year end rate base. The Company adjusted the rate of return to reflect same current authorized rate of return plus the amortization of the financing costs, resulting in a pro forma rate of return of 8.09%. The proposed rate of return of 8.09%, when multiplied by the pro forma rate base of $99,156, results in an operating income requirement of $8,022. The Company increased its revenue by $19,488 in order to allow the Company to recover its expenses and to earn a fair and reasonable return on its investment.

Q. Would you please summarize Schedule 1, "Statement of Income," for the twelve months ended December 31, 2021?

A. The first column (column b) of Schedule 1 shows the actual operating results of the Company from January 1, 2021 through December 31, 2021. The Company has filed its 2021 NHPUC Annual Report, which further supports the rate filing. During the twelve months ended December 31, 2021, the Company operating revenues amounted to $48,292. The overall revenue is stable since there is a fixed number of customers and fixed rates. The Company had 78 customers.

The Company's operating expenses consist of operation and maintenance expenses, depreciation and amortization expenses, and taxes. The total 2021 operating expenses amounted to $64,582, an increase of $14,928 or 30.06%. Operation and maintenance expenses increased $14,928, primarily due to the setting up an accumulated provision for uncollectible accounts for $16,475 associated with 1 customer.

The Company reviewed all of its expense accounts in its preparation of the rate filing. In its review, the Company determined that certain expenses needed to be adjusted in order to reflect what would be considered normal and recurring.

Q. Please explain each of the pro forma adjustments made to revenue as shown on Schedule 1, in the second column (column c) and further supported on Schedule 1A.

A. The Company made one pro forma adjustment to revenue.

Operating Revenues

1. Operating Revenues needed to earn return and recover expenses - $19,488.

The pro forma adjustment to revenue represents the additional revenue of $19,488 needed to recover the increase in its pro forma expenses and to earn a reasonable return on its pro forma rate base.

Q. Did the Company make any pro forma adjustments to expenses?

A. Yes. The Company made a number of pro forma adjustments to expenses as follows:

Operating and Maintenance Expenses

2. Contracted Services – LaMontagne Management Corp. - $3,300.

For years, Mr. LaMontagne and his representative have provided review, oversight and approval of various aspects of Bedford's operations at no costs. In recent years, Mr. LaMontagne and his representative have had to increase their involvement due to cash flow issues. With their increased involvement, it is no longer practical to provide such services at no costs. As such, Mr. LaMomtagne and his representative have begun to monitor their time and have developed a proposed matrix of hours provided on a monthly basis at fair and reasonable hourly rates. The result of the proposed monthly matrix is $275 per month of $3,300 per year.

3. Contracted Services Stephen P. St. Cyr & Associates – ($2,092).

During the test year, SPS&A was involved in a number of activities including the management, billing and collection, the potential purchase and sale of the company, the testing of the leach fields and repair of leach field D-Box, cash flow analysis and the consideration of filing for a rate case. The potential purchase and sale of the company is considered nonrecurring and as such the costs have been deducted. Certain other activities i.e., management, billing and collection have seen an increase in costs. The net of the not recurring expenses and the price increases resulted in a net decrease of $2,092.

<u>4. Contracted Services Stephen P. St. Cyr & Associates – $675.</u>

With the filing of the rate case, the Company anticipates that the NHDOE will audit Bedford's financials. Since there are no such expenses in the test year, the Company proposed to track and accumulate such expenses and amortize the expenses over 3 years. The Company projects that it will incur $2,205 in audit expenses. The projected audit expenses of $2,025, amortized over 3 years, results in $675 per year. The projected expenses will be adjusted to actual expenses once the audit is completed.

<u>5. Melanson – $150.</u>

In 2021, the test year, Melanson charged Bedford $750 to prepare the 2020 tax return. In 2022 Melanson charged Bedford $900 to prepare the 2021 tax return. The pro forma adjustment of $150, represents the difference for the known and measureable change

<u>6. Contracted Services – AAA Pump - $1,587.</u>

In 2021, the test year, there were no AAA Pump expenses. In 2022, Bedford incurred $1,587 associated with AAA Pump fixing a float in one of the septic tanks. Bedford needs some funds to cover costs associated with repairs and maintenance that do not involve replacing a pump. Since this is Bedford's most recent experience, the Company believes that the amount is appropriate.

7. Contracted Services – Maznek $5,688.

In 2021, the test year, the Company incurred $4,555 associated with pumping of 15 tanks. Due to replacement of pumps and a cash flow shortage, the Company was unable to do a 2^{nd} semi-annual pumping. In a perfect world, the Company would pump 39 tanks per years, ½ of the total 78 tanks. The pro forma adjustment attempts to get Bedford in a position to pump approximately 39 tanks per year.

8. Insurance – $263.

In 2021, the test year, the Company incurred $826. In 2022 the Company's insurance provided Liberty Mutual increased its insurance rates from $74.75 to $90.74 per month. The pro forma adjustment adjusted the test year expenses to reflect the current insurance rates.

9. Bad Debt – ($16,475).

In 2021, the test year, the Company charged bad debt expense and set up an accumulated provision for uncollectible accounts for $16,475. The amount is associated with 1 customer. The Company is currently pursuing the matter in court. As such, the Company is removing the bad debt expense from test year expenses.

10. Miscellaneous - $198.

In 2021, the test year, the Company incurred $790 of miscellaneous expenses. The miscellaneous expenses consist largely of office expenses and telephone costs. The Company increased test year expenses for the increase in the POBox rental fee and the increase in postage. The Company also increased test year expenses for the increase in the telephone expenses. Bedford shares telephone expenses with Bodwell and Lorden sewer companies. With the PUC approving Bodwell's petition to discontinue sewer service, Bedford's share of the telephone expense increases.

11. Depreciation – $1,882.

In 2021, the Company replaced 7 pumps and recorded a half year depreciation on such pumps. The $1,882 represents the other half year depreciation so as to reflect a full year's depreciation expense in the test year.

12. Amortization of CIAC - $0.

In 2021, the test year, the Company incurred ($2,157) of amortization of CIAC. The Company is not proposing any changes to the amortization.

13. Taxes other than income - $0.

In 2021, the test year, the Company incurred $999 and $2,948 associated with State of NH and Town of Bedford property taxes, respectively. The Company continues to monitor its property taxes and, at this time, is not proposing any changes to the test year expenses.

14. State Business Taxes - $0.

In 2021, the test year, there were no state business taxes. The Company continues to monitor its state business tax situation, but, at this time, is not proposing any changes. .

The total pro forma adjustments to expenses amount to ($4,824).

Q. Please explain Schedule 1B

A. Schedule 1B shows Operating Expenses for 2021, 2020, the 2 year average of the 2021 and 2020 expenses, Adjustment to 2021 expenses and the adjusted 2021 amounts. There are also notes at the bottom of the schedule related to certain adjustments. Schedule 1B further supports Schedule 1 and 1A.

Q. Does column d of Schedule 1 represent the sum of the actual test year amounts (column b) plus the pro forma adjustments (column c)?

A. Yes, it does.

Q. Does column e and f represent the revenue and expenses for the twelve months ended December 31, 2020 and 2019, respectively?

A. Yes, it does.

Q. Would you please explain Schedule 2 entitled "Balance Sheet"?

A. Yes. This schedule shows the year end balances reflected on the balance sheets of the Company for 2021, 2020 and 2019.

Utility Plant consists of 5 common leach fields, mains, 78 septic tanks and 78 pumps. At December 31, 2021 the Company had utility plant of $647,002.

Accumulated Depreciation represents the depreciation on these same assets from the date of purchase through December 31, 2021, using a straight line depreciation method over the estimated useful life. The Company's current and accrued assets amount to $13,905, including $11,918 of accounts receivables. The Company's cash position is poor. The Company also has deferred assets of $3,762 representing unamortized debt expense.

The Company's Equity Capital amounts to ($52,940) consisting of $1,000 of common stock, $25,000 of other paid in capital ("OPIC"), and retained earnings of ($78,940). The Company's negative retained earnings have been increasing in recent years due to net losses. The Company's sole shareholder is Mr. LaMontagne. The number of shares authorized and outstanding is 10 with $100 par value. The Company's other long term debt outstanding amounts to $134,217. In 2017 the Company borrowed $170,000 at 4.75% over 15 years from Merrimack County Savings Bank ("MCSB"). The borrowing was approved in PUC Order No. 26,072 in Docket DW 17-142. In 2020 the Company sought and received PUC approval for a Change in Term Agreement ("CiTA"), resulting in a decrease from 4.75% to 3.95%. The CiTA was approved by August 25, 2020 Secretary Letter in Docket DW 20-106. The Company's total current and accrued liabilities amount to $29,547 including $18,000 and $11,547 of short term debt and miscellaneous current and accrued liabilities, respectively. The Company's total deferred credits amount to $19,527 representing net contribution in aid of construction. Please note that Bedford is seeking to refinance / finance the MCSB loan, to repay the OPIC and STD and to pay past due accrued liabilities in DW 22-054.

Q. Would you please explain Schedule 3 entitled "Rate Base"?

A. Columns (b) - (f) show the actual balances of the rate base items as per the Company's quarterly financial statements. Column (g) shows the actual 5 quarter average balances. Column (h) shows the 2021 pro forma adjustments. Column (I) shows the pro forma 2021 balances.

The rate base consists of Utility Plant, less Accumulated Depreciation less net Contributions in Aid of Construction plus Cash Working Capital. The actual 5 quarter average rate base amounts to $92,866. The Company made a few adjustments to rate base, all of which pertain to adjusting the 5 quarter average balances to the year end balance. See Schedule 3A. In order to properly reflect rate base, all of its plant and plant related items at year end are completed and providing service to customers. Fully reflecting plant and the related items in rate base will allow for full recovery of the assets. Working capital is determined by utilizing a percentage that represents the lag between the time in which the Company bills its customers and receives the cash from such billing and the time that it pays for expenses to provide services. It is derived by applying 75/365 days or 20.55% to operating expenses. The computation of working capital is shown on schedule 3B. The Company proposes a pro forma 5 quarter average rate base of $99,156.

Q. Would you please explain Schedule 4 entitled "Rate of Return Information"?

A. The Company's actual rate of return for 2021, 2020 and 2019 are -16.33%, -0.98% and 7.61%, respectively. Since the Company's Equity Capital is negative, the Company is proposing to utilize its cost of debt of 8.09%. The Company's capital structure consists of Equity and Debt Capital.

Its Actual 2021 Equity Capital consists of $1000 of Common Stock, $25,000 of Other Paid in Capital, and Retained Earnings of ($78,940), resulting in a Total Equity Capital of ($52,940). The Company has $134,217 of long term debt at year end. The Company's overall capital structure is heavily weighted towards debt. The proposed rate increase should improve earning, increase retained earnings and increase the equity portion of the capital structure.

Q. Please explain Schedules 5 and 6, Effective Tax Factor and Income Tax Computation?

A. The Effective Tax Factor amounts to 37.14%. The Income Tax Computation is zero. Please note that Bedford is an S-Corp and as such, any federal taxable income (loss) and related federal income tax is passed through to the owner. Bedford incurred no state business taxes in 2021. Bedford is monitoring is state business tax.

Q. Please explain Schedule 7, Step 1 based on 2022 Pump Replacement.

A. During 2022 Bedford has already replaced 4 pumps at a cost of $17,176. Bedford projects that it will replace 3 more pumps during September – December 2022 at a cost of $12,882 ($17,176 / 4 x 3). The Company proposed recovery of the pump replacement costs plus the related depreciation and state and local property taxes as part of Step 1. The addition to rate base times the proposed rate of return plus the additional operating expenses results in a required net operating income of $7,214. Please note that the Step 1 pump replacements will be adjusted to the actual number of pumps replaced and the actual costs.

Q. Please explain Schedule 8, Step 2 based on 2023 Pump Replacement.

A. During 2023 Bedford projects that it will replace 7 pumps at a cost of $30,057. The Company proposed recovery of the pump replacement costs plus the related depreciation and state and local property taxes as part of Step 2. The addition to rate base times the proposed rate of return plus the additional operating expenses results in a required net operating income of $7,214. Please note that the Step 2 pump replacements will be adjusted to the actual number of pumps replaced and the actual costs.

Q. Please explain the Report of Proposed Rate Changes.

A. The Report of Proposed Rate Changes shows the rate class, the effect of the revenue change, the number of customers, the authorized present revenue, the proposed revenue, the proposed change amount and percentage.

The proposed change amount is $19,488 or 39.47%. Based on the proposed change amount, the annual rate would go from $623.08 to $868.97 or the quarterly rate would go from $155.77 to $217.24.

Q. Would you please summarize what the Company is requesting for permanent rates, Step 1 and Step 2 in this docket?

A. Yes, the Company is requesting a permanent revenue increase of $19,488, effective November 15, 2022. The permanent revenue increase of $19,448 enables the Company to earn a 8.09% pro forma rate of return on its investment, reflected in a pro forma rate base of $99,156. The annual amount for the Company's 78 customers will increase from $623.08 to $868.97, an increase of $245.89 or 39.47%.

Q. Is there anything further that you would like to discuss?

A. Yes. I would like to address temporary rates.

The Company is requesting a temporary revenue increase of $9,469, effective November 15, 2022. The temporary revenue increase of $9,469 enables the Company to earn a 8.00% pro forma rate of return on its investment, reflected in a pro forma rate base of $97,148. The annual amount for the Company's 78 customers will increase from $623.08 to $740.53 an increase of $117.45 or 18.85%. Please see temporary rate filing.

Q. Is there anything further that you would like to discuss?

A. Yes, there are a number of items that the Company would like to address including the calculation the annual deposit in the Bedford Depreciation Account, the year end A/R Aging Summary, the potential purchase and sale of the sewer system and the engagement of Stephen P. St. Cyr & Assoc. ("SPS&A") and LaMontagne Management Corp. ("LMC").

<u>Calculation of the annual deposit into the Bedford Depreciation Account</u>

Since DW 04-144 Bedford has been calculating the annual deposit to be placed in the Bedford Depreciation Account. For the 18 years in which Bedford has done the calculation, only 4 years have yielded an annual total which revenue exceed expenditures such that a deposit into the depreciation account was possible. However, the cumulative total in those years was negative. As such, the Company did not make a deposit into the depreciation account. At December 31, 2021 the cumulative total was -$128,128. In most years, the total is going to be negative. In recent years, the Company has struggled with cash flow and has had to request funds from its owner in order to pay expenditures. There is no need for Bedford to have to meet this Bedford only requirement.

Year End A/R Aging Summary

Also, since DW 04-144 Bedford has been filing its year end A/R Aging Summary. While not a particularly onerous task, it is one more requirement. At this point, Bedford has 1 customer who is significantly delinquent. Bedford is pursuing collection from this customer via the court. There is no need for Bedford to have to meet this Bedford only requirement.

Purchase and Sale of the Sewer System

In recent years Bedford has tried to sell the sewer system. It has approached the homeowners, other utilities and other entities. Bedford is still open to selling the sewer system to the homeowners or any other entity. To the extent that the parties to this proceeding are aware of any interested buyer, Bedford would appreciate assistance in facilitating such a purchase and sale.

Rate Case Services

The Company has engaged the services of Stephen P. St. Cyr & Assoc. ("SPS&A") and LaMontagne Management Corp. ("LMC") to prepare schedules, testimony, petition and other rate case requirements and pursue the rate increase and to provide review and oversight of such matter, respectively. For SPS&A, the Company has agreed to an hourly fee of $135.00 (plus out of pocket costs) for work performed in preparation of the permanent and temporary rate filings and pursuit of the rate increase during the rate proceeding. For LMC, the Company has agreed to an hourly fee of $125 (plus out of pocket costs) for work performed in reviewing, overseeing and approving the permanent and temporary rate filings and pursuit of the rate increase during the rate proceeding. The Company will make every effort to minimize its rate case expenses.

Q. Does this conclude your testimony?

A. Yes.