

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY

DW 11-226

**PETITION TO AMEND ORDER FOR AUTHORITY TO BORROW LONG
TERM DEBT FOR WATER SERVICE LINE REPLACEMENTS**

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) amended financing request and to amend the financial exhibits 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.
- Q. What is the purpose of your testimony?

- A. The purpose of my testimony is to support the Company's effort to borrow an additional \$75,000 of funds from the State of New Hampshire via the SRF to pay for the proposed 2013 water service line replacements.
- Q. Please describe the financing for the proposed 2013 capital additions.
- A. In 2013 the Company is proposing to replace an additional 50 – 60 service lines, water shut offs, corporations and saddles in an area of the water system in Atkinson and Hampstead that has been identified to be a leading cause of water loss through leakage. Typically this leakage occurs where old plastic barbed adapters and other inadequate fittings have failed. Prior to starting the work last June, the average water loss in the Atkinson-Hampstead core system was over 25%. Since that time the average water loss has been averaging about 18%. The Company expects the water loss to decrease even more. The project will also improve energy efficiency by reducing power consumption.
- Q. When does the Company expect to start and finish the 2013 water service line replacement project?
- A. The project is a continuation of work started in 2012 and is expected to end in January 2014.
- Q. Please describe the terms and conditions of the SRF financing.
- A. The Company has requested and the NHDES Drinking Water and Groundwater Bureau has agreed to the Company's requests for \$75,000. The Company anticipates that the loan will be paid back over 20 years at an interest rate of 2.72%.

- Q. Has the Company determined the impact of the financing and the additions to plant on the Company's financial statements?
- A. Yes. I have amended proforma financial statements identified as Amended SPS 1-1 – SPS 8.
- Q. Would you please explain Amended Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Debits?
- A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b), identifies the PUC account title and account number. Column (c) identifies the actual December 31, 2010 account balances. Column (d) identifies the adjustments to the December 31, 2010 account balances. Column (e) identifies the amended amounts. Column (f) identifies the adjusted December 31, 2010 account balances and is the sum of columns (c) (d) and (e).
- Q. Please explain the adjustments related to 2013 water service line replacements and SRF financing.
- A. Amended Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$75,000 represents the projected costs of the water service line replacements.

The second adjustment to Accumulated Depreciation for \$938 represents a half year depreciation on the 2013 additions.

The third adjustment to Cash for (\$2,329) represents the net of the cash received from the SRF financing and the anticipated additional revenue less payment for the new plant, payment of the first year principal and interest on the additional \$75,000 loan and payment for increase in certain expenses, i.e., taxes.

The fourth adjustment to Miscellaneous Deferred Debits for \$1,425 is the net of the costs incurred in order to pursue PUC approval of the additional SRF financing and the amortization of such costs.

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

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

Q. Please explain the adjustments related to the 2013 water service line replacement and the SRF financing.

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

The first adjustment to Retained Earnings for \$1,020 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation, taxes and interest).

The second adjustment to Other Long Term Debt for \$72,138 represents the net amount of the SRF financing of \$75,000 and the first year repayment of the loan of \$2,862.

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

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

Q. Please explain the adjustments related to the 2013 water service line replacements and SRF financing.

A. There are 4 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of \$5,357 represents the anticipated additional revenues when such plant is placed in rate base and

reflected in rates. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Depreciation Expense of \$938 represents a half year depreciation on the 2013 additions.

The third adjustment to Taxes other than Income of \$1,453 and Income Taxes of \$14 represents the increase in state and local property taxes and the state business enterprise tax.

The fourth adjustment to Interest Expense including the amortization of the financing costs amounts to \$1,932. It represents the first year interest expense on the SRF loan and the amortization of the financing costs.

Overall, with the additional revenue less the various expenses, the net income amounts to \$1,020.

- Q. Would you please explain Amended Schedule SPS-3, entitled Balance Sheet, Capital Structure?
- A. The description of the columns is the same as Amended SPS 1-1.
- Q. Please explain the adjustments related to the 2013 water service line replacements and the SRF financing.
- A. The actual Current Year End Balance is also reflected on the Balance Sheet (see Amended SPS 1-2). The related capitalization ratios are shown on the bottom half of the schedule. The Company's debt to equity position is heavily weighted towards debt due to its negative retained earnings. The Company equity position has improved in recent years due to the 2009 conversion of A/P to Associated Company to Other Paid in Capital and improved earnings. The addition of the

additional SRF financing does not significantly alter the Company's debt to equity position.

Q. Please explain Amended Schedule SPS-4, entitled Journal Entries.

A. Amended Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the borrowing of SRF, (2) the utilization of the SRF for the water service line replacements, (3) the repayment of the principal and interest on the loan, and (4) the anticipated revenue requirement when the plant is placed in rate base and reflected in rates.

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

A. Amended SPS-5 is a schedule of plant and depreciation for 2012 and 2013 water service line replacements. It shows the amended addition to plant of \$255,000, including the \$75,000 for the 2013 service line replacements. The annual depreciation expense of \$6,375 and the first year accumulated depreciation of \$3,188 include \$1,875 and \$938 of depreciation expense and accumulated depreciation, respectively, associated with the 2013 service line replacements.

Q. Would you please explain Amended SPS-6, entitled Calculation of Revenue Requirement?

A. The Estimated 2013 amounts reflect the sum of the additions to plant less the related accumulated depreciation result in an addition to rate base of \$74,063. The Company is applying the anticipated cost of debt of 2.720% to determine the additional net operating income required of \$2,015. In addition, the Company

adds a full year depreciation and taxes to the additional net operating income required in order to determine the total additional revenue requirement of \$5,357.

Q. Would you like to explain Amended SPS-7?

A. Amended SPS-7 is a schedule of the Source and Use of Funds which reflect the source and use of the additional \$75,000 for the 2013 water service line replacements.

Q. Would you like to explain Amended SPS-8?

A. Amended SPS-8 is a schedule of the Estimated Cost of Financing to pursue PUC approval of the SRF financing.

Q. How does the Company propose to repay the new debt?

A. As part of Settlement Agreement presented to the Commission in DW 12-170, the proposed second step increase is intended to increase revenues to pay for the SRF loan. With an increase in rates from second step increase, the Company believes that the revenues will be sufficient to pay principal and interest on the loans.

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

A. The cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will be amortized over the 20 year term of the SRF loan.

Q. Why should the Commission approve the additional financing?

A. The Commission should approve the additional financing because it is in the best interest of the Company and its customers. The 2013 water service line replacements increases reliability of the water systems, reduces water loss, reduces purchased power and treatment expenses.

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

A. No.

Q. Please summarize the approval that the Company is requesting.

A. The Company respectfully requests that the PUC approve the amended SRF financing for the 2013 water service line replacements of \$75,000, under the terms and conditions stated previously.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

5/07/13