

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY**

DW 16-

**PETITION FOR APPROVAL OF REFINANCING OF TD BANK LOANS AND
FINANCING OF APPROXIMATELY \$2,125,929 WITH PENTUCKET BANK**

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) refinancing / financing request and to prepare the financial schedules
and prefiled direct testimony which describes the refinancing / financing and the
financial schedules. In addition, I am prepared to testify in support of refinancing
/ 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 \$2,125,929 from Pentucket Bank, which will allow it to pay 2 TD Bank loans. The Company estimates that the balance of the two loans will approximate the amount being requests.

Q. Please describe the 2 TD Bank loans.

A. Generally, both loans were entered into in 2011. The term of the loans is 5 years, being amortized over 20 years at an interest rate of 4.14%. The 5 year term is up in mid- September 2016. The funds from the 2 loans were used to refinance debt, to finance additions to plant, to purchase of water systems and to pay for various other costs.

Q. Please describe the Pentucket loan.

A. The term of the loan is 15 years. The interest rate will be fixed at 3.25% for 5 years, then adjusted every 5 years to the Federal Home Loan Bank of Boston rate plus 2.25%. The funds will be used to pay the anticipate balance of the 2 TD Bank loans.

Q. When does the Company anticipate entering into the loan agreement with Pentucket Bank?

A. The Company anticipates entering into the loan agreement in mid September 2016.

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

A. No.

- Q. Has the Company determined the impact of the refinancing / financing on the Company's financial statements?
- A. Yes. I have prepared proforma financial statements identified as SPS 1 – SPS 6.
- Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Debits?
- A. Yes. Generally, column (b) identifies the account title and PUC account number. Column (c) reflects the actual December 31, 2015 balances. Column (d) identifies the adjustments for the refinancing / financing to the December 31, 2015 account balances. Column (e) is the sum of columns (c) and (d).
- Q. Please explain the adjustments reflected on SPS 1-1.
- A. Schedule SPS 1-1 contains 2 adjustments.

The first adjustment reflects the net of the cash received from Pentucket Bank and the cash expended to pay TD Bank loans. Please note that the Company continues to pay monthly principal and interest on the 2 TD Bank loans during 2016 and up to the closing in mid September 2016. It is anticipated that the amount borrowed from Pentucket Bank will approximate the amount due TD Bank.

The second adjustment reflects the net of the estimated financing costs less the amortization of such financing costs over 15 years.

- Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.
- A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments on reflected on SPS 1-2.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment reflects the impact on net income. It primarily reflects less interest expense resulting in more net income.

The second adjustment reflects the net of the refinancing / financing.

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

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

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

A. There are 2 adjustments to the Statement of Income.

The first adjustment is the net decrease in interest expense, primarily due to the lower interest rate.

The second adjustment is the net increase in the amortization of debt expense. Please note that the Company will continue to amortize the existing balances during 2016 up to the closing date.

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

A. The Current Year Balance is the balance at 12/31/15 and is also reflected on the Balance Sheet (see SPS 1-2). The adjustments are the change in retained earnings due to the increase in net income and the change in long term debt due to the refinancing / financing. The related capitalization ratios are shown on the bottom half of the schedule. The Company's 12/31/15 debt to equity position is heavily weighted toward debt due in part to its negative retained earnings. The refinancing / financing does not substantially change the debt to equity position.

In recent years the Company's net income has reduced the negative retained earnings.

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

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are JE#2, the borrowing of funds from Pentucket Bank, and JE#3, the payment of the TD Bank loans and JE#5, which shows the difference in the annual interest expense.

Q. Would you like to explain SPS-5?

A. SPS-5 shows the source and use of the funds.

Q. Would you please explain SPS-6?

A. SPS-6 shows the estimated costs to pursue PUC approval of the refinancing / financing.

Q. How does the Company propose to repay the Pentucket Bank loan debt?

A. The Company believes that the existing rates are adequate to pay the monthly principal and interest on the loan.

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

A. The costs associated with the Pentucket Bank loan and the costs to pursue and obtain PUC approval will be deferred and amortized over the term of the loan.

Q. Why should the Commission approve the refinancing / financing?

A. The Commission should approve the refinancing / financing because it is in the best interest of the Company and its customers. The refinancing / financing will allow the Company to take advantage of lower interest rates.

- Q. When should the Commission approve the financing?
- A. The Company respectfully requests that the Commission approve the refinancing / financing as soon as possible but no later than mid-August 2016 so that the Company can close on the loan 30 days after PUC approval.
- Q. Is there anything else that the Company would like to bring to the Commission's attention?
- A. No.
- Q. Please summarize the approvals that the Company is requesting.
- A. The Company respectfully requests that the PUC approve the refinancing / financing by Pentucket Bank in the amount of \$2,125,929, under the terms stated previously.
- Q. Does this conclude your testimony?
- A. Yes.