

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
WEST SWANZEY WATER COMPANY, Inc.

DW 17-

**PETITION FOR APPROVAL OF
OWNER FINANCING OF
VFDs and SCADA**

PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR

- Q. What is your name and business address?
- A. My name is Stephen P. St. Cyr. 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 present West SwanzeY Water Company's ("Company") financing request and to prepare 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 present the Company's request to borrow funds from its owner, Sarah Brown, to finance the 2017 additions to plant related to two variable frequency drives ("VFDs") and SCADA.

Q. Please describe the VFDs and SCADA.

A. On May 23, 2017, the Department of Environmental Services ("DES") conducted a Sanitary Survey. Among DES recommendations were the installation of VFDs on the well pumps and the installation of a SCADA system. System operation could be made easier and more effective through the installation of VFDS. VFDs could ramp up the speed of the pumps to create less stress on the existing equipment and decrease the possibility of water main breaks. This impacts the frequency of maintenance and the expected life of both the pumps and mains. Use of an active or updated SCADA system would facilitate system operation as well as position the Company for more rapid and effective emergency response. SCADA is also a significant improvement for the collection, storage and future use of operating records. SCADA systems have become more affordable, and most water systems now use SCADA.

Q. How is the Company proposing to finance the project?

A. The Company is proposing to borrow up to \$24,500 from its owner, Sarah Brown.

Q. Please describe the terms and conditions of the new long term debt.

A. The term is 10 years. The interest rate is fixed for the 10 year term at 5.00%. Monthly payments of \$269.41 are anticipated to begin in January 2018.

- Q. Does the Company anticipate an increase in rates as a result of the VFDs and SCADA and the related financing?
- A. Yes. As the Commission is aware, the Company is in the process of seeking an increase in rates in DW 17-103. The proposed step increase is specifically related to the VFDS and The SCADA and the related financing. The proposed financing and the step increase have been properly vetted in the rate case.
- 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 prepared proforma financial statements identified as SPS 1 – SPS 9.
- Q. Would you please explain 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 numbers. Column (c) identifies the PUC account title. Column (d) reflects actual December 31, 2016 account balances. Column (e) identifies the adjustments to the December 31, 2016 account balances. Column (f) identifies the adjusted December 31, 2016 account balances and is the sum of columns (d) and (e).
- Q. Please explain the adjustments related to the 2017 owner financing and the VFDs and SCADA.
- A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$24,500 represents the addition to plant for the costs of the VFDS and SCADA.

The second adjustment to Accumulated Depreciation for \$1,225 represents the half year depreciation on the 2017 additions.

The third adjustment to Cash for (\$1,429) represents the net of the cash received from the owner, less payment(s) to EE Houghton, Inc. for the 2017 VFDs and SCADA. The Company expects the cash flow will improve with the proposed increase in rates.

The fourth adjustment to Miscellaneous Deferred Debits for \$1,800 is the net of the proposed financing costs less the amortization of such costs.

- 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 related to the 2017 owner financing and the VFDs and SCADA.
- A. Schedule SPS 1-2 contains 2 adjustments.

The adjustment to Retained Earnings for \$1,154 represents the net income impact of the proposed step increase in revenue, less the depreciation expense, property taxes, interest expense and the amortization of financing costs. The Company expects the net income (loss) will improve with the proposed increase in rates including the proposed step increase.

The second adjustment to Other Long Term Debt for \$22,492 represents the net amount of the owner financing, less the first year payment of principal under the owner financing.

Q. Would you please explain Schedule SPS-2, entitled Balance Sheet, Capital Structure?

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

Q. Please explain the adjustments related to the owner financing.

A. The actual Current Year End Balance is also reflected on the Balance Sheet (see 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 addition of the owner financing has minimal impact on the Company's debt to equity position.

Q. Would you please explain Schedule SPS 3, entitled Statement of Income?

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

Q. Please explain the adjustments related to the 2017 owner financing and the VFDs and SCADA.

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

The first adjustment to Operating Revenue of \$4,750 reflects the Company's proposed step increase in DW 17-103.

The second adjustment to Depreciation Expense of \$1,225 represents a half year depreciation on the 2017 additions.

The third adjustment to Taxes other than Income of \$946 represents the increase in state and local property taxes associated with the increase in plant.

The fourth adjustment is the net impact of the interest expense and the amortization of financing costs.

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 the recording of the owner financing (JE#2), the utilization of the owner's funds for the purchase and installation of the VFDs and SCADA (JE#3), the payment of the principal and interest on the owner's financing (JE#5) and the increase in revenues in order for the Company to meet the debt service (JE#7).

Q. Please explain Schedule SPS 5, Revenue Requirement – Step Increase for Pump Drives and SCADA.

A. Total Rate Base amounts to \$24,500. When the cost of debt of 5.82% is applied to the Total Rate Base, the return on additional plant amounts to \$1,354. When the O&M expenses of \$3,396 are added to the return of \$1,354, the additional revenue requirement amounts to \$4,750.

Q. How was the rate of return calculated as shown on SPS-6?

A. The rate of return was calculated by summing the annual interest expense of \$1,225 and the annual amortization of financing costs of \$200, then dividing it by the amount of the loan of \$24,500 or 5.82% ($\$1,225 + \$200 / \$24,500$).

Q. Would you please explain Schedule SPS-7, entitled Plant, Depreciation and Accumulated Depreciation?

A. The schedule identifies the PUC accounts and account descriptions along with the costs, annual depreciation expense and accumulated depreciation. The Company

is utilizing a 10 year life for the VFDs and SCADA resulting in annual depreciation of \$2,450.

Q. Would you like to explain SPS-8?

A. SPS-8 is a schedule of the Source and Use of Funds for the 2017 owner financing.

Q. Would you like to explain SPS-9?

A. SPS-9 is a schedule of the Estimated Cost of Financing to pursue PUC approval of the owner financing. Please note that the estimated costs assume a relatively straight forward approval process.

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 10 year term of the owner's loan.

Q. Why should the Commission approve the owner financing?

A. The Commission should approve the owner financing because it is in the best interest of the Company and its customers. The owner financing will enable the Company to comply with DES's recommendation. The VFDs will allow for easier starts and potentially extend the life of the pumps. The SCADA will allow for better monitoring of the pump stations, for quick response to potential problems and for collection of data. The owner financing is necessary in order to continue to provide water service to customers.

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

A. Yes, the proposed VFDs and SCADA are incorporated into the Company rate case as a step increase. The proposed financing and related step increase have been properly vetted in the rate case.

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

A. The Company respectfully requests that the PUC approve the owner financing for the purchase and installation of VFDS and SCADA. The total financing amounts to \$24,500, under the terms and conditions stated previously.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

12/11/17