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**STATE OF NEW HAMPSHIRE**

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**BEFORE THE**

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**PUBLIC UTILITIES COMMISSION**

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**Re: Lakeland Mangement Company**

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**DIRECT PREFILED TESTIMONY OF**

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**STEPHEN P. ST. CYR**

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**July 10, 2009**

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3 Q. What is your name and business address?

4 A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,  
5 Biddeford, Me.

6 Q. Who is your employer?

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

8 Q. Are you the holder of any degrees?

9 A. Yes. I hold a B.S degree in business administration, with a concentration in  
10 accounting, from Northeastern University in Boston, MA.

11 Q. Have you prepared testimony before this Commission on other occasions?

12 A. Yes, I have prepared and presented testimony in numerous cases before the Public  
13 Utilities Commission ("PUC" or "Commission"), including requests for new and  
14 expanded franchises, requests for approval of financings, including State  
15 Revolving Fund ("SRF"), commercial bank and owner financings, and requests  
16 for rate increases.

17 Q. Have you prepared and presented other testimony to this Commission on behalf  
18 of the Company?

19 A. Yes.

20 Q. What is the nature of your current testimony?

21 A. I have prepared the financial schedules supporting the request of Lakeland  
22 Management Company (the "Company") for Commission approval for both  
23 funding and expenditure of \$95,000 for the purchase and installation of two new  
24 American manufactured pre-cast concrete water storage tanks, including the

1 necessary water main piping, valves, fittings, and miscellaneous appurtenances.

2 My testimony will explain those schedules.

3 Q. How much is the total financing?

4 A. The total financing amounts to \$95,000, of which \$47,500 will be a grant and  
5 \$47,500 will be a SRF loan.

6 Q. What are the terms and conditions of the SRF loan?

7 A. The term is 10 years. The interest rate is 2.34%. The Company is assuming that  
8 the loan repayment begins July 1, 2010.

9 Q. How is the Company proposing to recover the investments subject to this  
10 financing?

11 A. The Company will soon file a rate case, which will include a step increase to  
12 recover these investments.

13 Q. What are the consequences if rates are not approved?

14 A. If the rates are not approved, the Company would be unable to repay the SRF loan  
15 to the State. If the Company cannot repay the SRF loan, NHDES would have no  
16 choice but to disqualify the Company from receiving the funds for the project. If  
17 the Company is disqualified from receiving the funds, the project would be  
18 delayed. If and when such projects were to go forward at a later date, both the  
19 Company and its customers will pay more.

20 Q. What is the revenue requirement associated with the step increases?

21 A. The revenue requirement is \$4,364.

22 Q. Do you have any schedules as part of your testimony?

23 A. Yes. There are eleven schedules attached, identified as SPS 1 thru 11.

1 Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and  
2 Other Deferred Debits?

3 A. Yes. Generally, column (a) identifies the line number on the schedule. Column  
4 (b) references the PUC account number. Column (c) provides the account title.  
5 Column (d) identifies the actual December 31, 2008 account balances. Column  
6 (e) identifies the financing and step increase adjustments to the December 31,  
7 2008 account balances. Column (f) is the sum of columns (d) and (e) and  
8 identifies the proformed December 31, 2008 account balances.

9 Q. Please explain the adjustments related to ARRA financing and step increases.

10 A. Schedule SPS 1-1 contains 4 adjustments.

11 The first adjustment to Utility Plant represents the additions to plant in  
12 service for the project amounting to \$95,000.

13 The second adjustment of \$1,563 to Accumulated Depreciation is for the  
14 half-year depreciation on the \$95,000 of plant additions.

15 The third adjustment of (\$4,213) to Cash is the net of the cash received  
16 from the financing and the proposed step increase, less payment for the new plant,  
17 the repayment of the new loan, and the payment of operating expenses.

18 The fourth adjustment of \$1,350 to Miscellaneous Deferred Debits is the  
19 net of the costs incurred in order to pursue PUC approval of the financing and the  
20 amortization of those expenditures related to the financing.

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

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

1 Q. Please explain the adjustments related to the financing and step increases.

2 A. Schedule SPS 1-2 contains 3 adjustments.

3 The first adjustment of \$622 to Retained Earnings represents the net  
4 income impact of the various income statement transactions (i.e., revenue,  
5 operating and maintenance expenses, depreciation and amortization expenses,  
6 taxes and interest expense).

7 The second adjustment of \$43,234 to Other Long Term Debt represents  
8 the net amount of the additional debt financing of \$47,500 and the first year  
9 repayment on the additional debt financing of \$4,266.

10 The third adjustment of \$46,719 to Contribution in Aid of Construction  
11 –Net represents the amount of the federal grant of \$47,500 less the half-year  
12 amortization on the \$47,500 of contribution in aid of construction.

13 Q. Please explain Schedule SPS 2, entitled Statement of Income?

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

15 Q. Please explain the adjustments related to the ARRA financing and step increase.

16 A. There are a number of adjustments to the Statement of Income.

17 The first adjustment of \$4,364 to Operating Revenue represents the  
18 revenue requirement associated with the additions to plant. The revenue  
19 requirement allows the Company to recover its investment, earn a return on the  
20 unrecovered investment, and to recover its operating expenses.

21 The total adjustment to Operating Expenses is \$2,526. The adjustments to  
22 Operating Expenses consist of depreciation, amortization of CIAC and taxes other  
23 than income and income taxes. The significant adjustments are the increase in

1 depreciation expense associated with the new plant, the increase in amortization  
2 of CIAC associated with the portion of the new plant that was contributed via the  
3 federal grant, and the increase in the taxes other than income associated with state  
4 and local property taxes on the new plant.

5 The adjustments to Interest Expense of \$1,066 and Amortization of Debt  
6 Expense of \$150 represents the first year interest expense on the additional debt  
7 financing and the first year amortization of the financing costs.

8 Q. Please explain Schedule SPS 3, entitled Capital Structure?

9 A. The actual 12/31/08 Current Year End Balance is reflected on this schedule. In  
10 addition, the proformed 12/31/08 Year End Balance reflects the impact of the  
11 ARRA financing and step increase. The related capitalization ratios are shown on  
12 the bottom half of the Schedule. Overall, the Company has a strong capital  
13 structure before and after the financing. The Company believes that earnings will  
14 improve with new rates, including the step increase related to this project.

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

16 A. Schedule SPS-4 identifies the specific journal entries used to develop the  
17 proforma financial statements. The significant journal entries are the recording of  
18 (1) JE#2, the ARRA financing, (2) JE#3, the utilization of the funds for the  
19 construction of plant, (3) JE#8, the repayment of the principal and interest on the  
20 loan, and (4) JE#10, the receipt of revenue, less the increase in operating expenses  
21 from the step increase.

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

- 1 A. The Company's ability to repay the new debt is only possible with approval of  
2 new rates including step increase related to this project.
- 3 Q. Please explain SPS-5 – Preliminary Calculation of Revenue Requirement?
- 4 A. The sum of the additions to plant of \$95,000, less the related accumulated  
5 depreciation of \$1,563, results in net plant of \$93,438. The sum of the CIAC of  
6 (\$47,500), less the related accumulated amortization of \$781, results in net CIAC  
7 of (\$48,281). The addition of the net plant of \$93,438, less the net CIAC of  
8 (\$48,281), results in a total additional rate base of \$45,156. The Company is  
9 applying the ARRA cost of debt of 2.34% to determine the additional net  
10 operating income required of \$1,057. In addition, the Company adds total  
11 increase in operating expenses of \$3,307 to the additional net operating income  
12 required in order to determine the total additional revenue requirement of \$4,364.  
13 The additional revenue requirement of \$4,364 added to the adjusted 12/31/08  
14 actual operating revenues results in a total revenue requirement of \$143,031.
- 15 Q. Please explain SPS-6?
- 16 A. SPS-6 is a schedule of plant and depreciation. The Company is using "typical  
17 water company service lives and depreciation rates" on the new plant.
- 18 Q. Please explain SPS-7?
- 19 A. SPS-7 is a schedule of CIAC and amortization of CIAC. The Company is using  
20 the same service lives and depreciation rates for the amortization of CIAC as the  
21 Company used for the depreciation of the contributed assets.
- 22 Q. Please explain SPS-8, Taxes other than Income?

1 A. SPS-8 is a schedule of state utility property taxes and local property taxes. Please  
2 note that the Company is assuming that the assessed value for state and local  
3 property taxes is 82% and 75%, respectively, of the total plant costs. The  
4 percentages are derived from the percentage of the most recent assessed value to  
5 net utility plant. The Company is then applying the 2008 state and local property  
6 tax rate to the state and local property tax assessment.

7 Q. Please explain SPS-9, Income Taxes?

8 A. SPS-9 is a schedule of state business taxes and federal income taxes. The  
9 Company is utilizing the business profit tax rate of 8.5%. The Company is  
10 utilizing the federal income tax rate of 15%.

11 Q. Please explain SPS-10, Source and Use of Funds?

12 A. SPS-10 is a schedule showing the total costs of the project, the total source of  
13 funds and the total use of funds. Half of the funds are a loan and half of the funds  
14 are a grant.

15 Q. Please explain SPS-11, Estimated Financing Costs?

16 A. SPS-11 is a schedule showing the estimated costs to pursue and obtain PUC  
17 approval of the financing.

18 Q. What does the Company propose to do with the estimated costs of the financing  
19 and step increase?

20 A. The cost to pursue and obtain PUC approval of the financing will be deferred.  
21 The financing costs will be added to the annual cost of the debt and reflected in  
22 the weighted, average interest rate.



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

3 A. No.

4 Q. Does this conclude your testimony?

5 A. Yes.

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## Class C Water Utility

### F-1 BALANCE SHEET

#### Assets and Other Debits

Line # (a)	Acct # (b)	Account Title (c)	Current Year End Balance (d)	Proforma Adjustments (e)	Proforma Year End Balance (f)
<b>UTILITY PLANT</b>					
1	101-105	Utility Plant	\$521,909	\$95,000	\$616,909
2	108-110	Less: Accumulated Depreciation & Amortization	194,416	1,563	195,979
3		Net Plant	\$327,493	\$93,438	\$420,931
4	114-115	Utility Plant Acquisition Adjustment - Net			
5		Total Net Utility Plant	\$327,493	\$93,438	\$420,931
<b>OTHER PROPERTY AND INVESTMENTS</b>					
6	121	Nonutility Property			
7	122	Less: Accumulated Depreciation & Amortization			
8		Net Nonutility Property			
9	124	Utility Investments			
10	127	Depreciation Funds			
11		Total Other Property and Investments			
<b>CURRENT AND ACCRUED ASSETS</b>					
12	131	Cash	\$16,198	(\$4,213)	\$11,985
13	132	Special Deposits			
14	141-143	Accounts & Notes Receivable Net	43,373		43,373
15	151	Plant Materials and Supplies	879		879
16	162-163	Prepayments	3,038		3,038
17	174	Miscellaneous Current and Accrued Assets			
18		Total Current and Accrued Assets	\$63,488	(\$4,213)	\$59,275
<b>DEFERRED DEBITS</b>					
19	186	Miscellaneous Deferred Debits	\$0	\$1,350	\$1,350
20	190	Accumulated Deferred Income Taxes			
21		Total Deferred Debits	\$0	\$1,350	\$1,350
<b>TOTAL ASSETS AND OTHER DEBITS</b>			<b>\$390,981</b>	<b>\$90,575</b>	<b>\$481,556</b>

NA

**F-1 BALANCE SHEET**  
**Equity Capital and Liabilities**

Line # (a)	Acct # (b)	Account Title ©	Current Year End Balance (d)	Proforma Adjustments (e)	Proforma Year End Balance (f)
		<b>EQUITY CAPITAL</b>			
1	201	Common Stock Issued			
2	204	Preferred Stock Issued			
3	211	Other Paid In Capital	212,987		212,987
4	217	Retained Earnings	82,250	\$622	82,872
5	218	Proprietary Capital (Proprietorships & Partnerships)			
6		Total Equity Capital	\$295,237	\$622	\$295,859
		<b>LONG TERM DEBT</b>			
7	224	Other Long-Term Debt	\$41,036	43,234	\$84,270
		<b>CURRENT AND ACCRUED LIABILITIES</b>			
8	231	Accounts Payable	\$37,521		\$37,521
9	232	Notes Payable			
10	235	Customer Deposits			
11	236	Accrued Taxes	4,115		4,115
12	237	Accrued Interest			
13	241	Miscellaneous Current & Accrued Liabilities			
14		Total Current and Accrued Liabilities	\$41,636	\$0	\$41,636
		<b>OTHER LIABILITIES</b>			
15	252	Advances for Construction			
16	253	Other Deferred Credits			
17	255	Accumulated Deferred Investment Tax Credit			
18	265	Miscellaneous Operating Reserves			
19	271-272	CIAC - Net		46,719	46,719
20	281-283	Accumulated Deferred Income Taxes	13,072		13,072
21		Total Other Liabilities	\$13,072	\$46,719	\$59,791
22		<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$390,981</b>	<b>\$90,575</b>	<b>\$481,556</b>

## Class C Water Utility

**F-2 STATEMENT OF INCOME**

Line # (a)	Acct # (b)	Account Title (c)	Current Year End Balance (d)	Proforma Adjustments (e)	Proforma Year End Balance (f)
		<b>UTILITY OPERATING INCOME</b>			
1	400	Operating Revenue	\$138,667	\$4,364	\$143,031
2	-	Operating Expenses:			
3	401	Operation and Maintenance	\$106,249	\$0	\$106,249
4	403	Depreciation	10,227	1,563	11,790
5	405	Amortization of CIAC		(781)	(781)
6	406	Amortization of Utility Plant Acquisition Adj			
7	407	Amortization - Other			
8	408	Taxes Other Than Income	5,748	1,607	7,355
9	-	Income Taxes (409.1, 410.1, 411.1, 412.1)	4,540	138	4,678
10		Total Operating Expenses	\$126,764	\$2,526	\$129,290
11		Net Operating Income (Loss)	\$11,903	\$1,838	\$13,741
		<b>OTHER INCOME AND DEDUCTIONS</b>			
12	419	Interest & Dividend Income	(\$124)		(\$124)
13	420	Allowance for Funds Used During Construction			
14	421	Non-Utility Income			
15	422	Gain (Loss) From Disposition Nonutility Property			
16	426	Miscellaneous Non-Utility Expenses	1,168		1,168
17	427	Interest Expense		1,216	1,216
18	-	Taxes Other Than Income (409.2+410.2+411.2+4			0
19		Total Other Income and Deductions	(\$1,044)	(\$1,216)	(\$2,260)
20		<b>NET INCOME (LOSS)</b>	<b>\$10,859</b>	<b>\$622</b>	<b>\$11,481</b>

NA

**F-1 BALANCE SHEET**  
**Capital Structure**

Line # (a)	Acct # (b)	Account Title ©	Current Year End Balance (d)	Proforma Adjustments (e)	Proforma Year End Balance (f)
		<b>EQUITY CAPITAL</b>			
1	201	Common Stock Issued			\$0
2	204	Preferred Stock Issued			
3	211	Other Paid In Capital	212,987		212,987
4	215	Unappropriated Retained Earnings			
5	217	Retained Earnings	82,250	\$622	82,872
6	218	Proprietary Capital (Proprietorships & Partnership)			
7		Total Equity Capital	\$295,237	\$622	\$295,859
		<b>LONG TERM DEBT</b>			
8	224	Other Long-Term Debt	\$41,036	\$43,234	\$84,270
9		<b>TOTAL CAPITAL</b>	\$336,273	\$43,856	\$380,129

**Capital Structure**

Line # (a)	Acct # (b)	Account Title ©	Current Year End Balance (d)	Proforma Adjustments (e)	Proforma Year End Balance (f)
		<b>EQUITY CAPITAL</b>			
1	201	Common Stock Issued	0.00%		0.00%
2	204	Preferred Stock Issued			
3	211	Other Paid In Capital	63.34%		56.03%
4	215	Unappropriated Retained Earnings			
5	217	Retained Earnings	24.46%	1.42%	21.80%
6	218	Proprietary Capital (Proprietorships & Partnership)			
7		Total Equity Capital	87.80%	1.42%	77.83%
		<b>LONG TERM DEBT</b>			
8	224	Other Long-Term Debt	12.20%	98.58%	22.17%
9		<b>TOTAL CAPITAL</b>	100.00%	100.00%	100.00%

**Lakeland Management Company****Year ended December 31, 2008 SPS 4**

JOURNAL ENTRIES				Impact on NI
JE#1	Dr. Unamortized Debt Expense	1,500		
	Cr. Cash		1,500	
	To record costs associated with financing (See SPS 11)			
JE#2	Dr. Cash	95,000		
	Cr. Other Long Term Debt		47,500	
	Cr. Contribution in Aid of Construction		47,500	
	To record receipt of cash and additional long term debt (See SPS 10)			
JE#3	Dr. Plant	95,000		
	Cr. Cash		95,000	
	To record additional investment in plant (See SPS 6)			
JE#4	Dr. Depreciation Expense	1,563		-1,563
	Cr. Accumulated Depreciation		1,563	
	To record annual depreciation expense (See SPS 6)			
JE#5	Dr. Accumulated Amortization of CIAC	781		
	Cr. Amortization Expense		781	781
	To record annual amortization expense (See SPS 7)			
JE#6	Dr. Operating Expenses			0
	Cr. Cash			
	To record increase in operating expenses			
JE#7	Dr. Taxes other than Income - State	506		-506
	Dr. Taxes other than Income - Local	1,100		-1,100
	Dr. State Business Enterprise Taxes	53		-53
	Dr. Federal Income Taxes	85		-85
	Cr. Cash		1,745	
	To record increase in property taxes and business enterprise taxes (See SPS 8 & 9)			
JE#8	Dr. Other Long Debt	4,266		
	Dr. Interest Expense	1,066		
	Cr. Cash		5,332	-1,066
	To record repayment of principal and interest			
JE#9	Dr. Amortization of Debt Expense	150		-150
	Cr. Miscellaneous Deferred Debt		150	
	To record amortization of debt expense			
JE#10	Dr. Cash	4,364		
	Cr. Revenue		4,364	<u>4,364</u>
	To record receipt of revenue (See SPS 5)			
	Impact on Net Income			<u>622</u>

## NA

## Preliminary Calculation of Revenue Requirement

	Total Projected Costs
Plant Additions/Retirements:	
Plant Additions	
Structures and Improvements	<u>\$95,000</u>
Total	<u>\$95,000</u>
Less: Accumulated Depreciation	<u>1,563</u>
Net Plant	<u>\$93,438</u>
Contribution in Aid of Construction	
Structures and Improvements	<u>(\$47,500)</u>
Total	<u>(\$47,500)</u>
Less: Accumulated Amortization of CIAC	<u>781</u>
Net Contribution in Aid of Construction	<u>(\$48,281)</u>
Plus: Working Capital	<u>0</u>
Total Additional Rate Base	\$45,156
Rate of Return	<u>2.340%</u>
Additional Net Operating Income Required	<u>\$1,057</u>
Increase in Operating and Maintenance Expenses	0
Increase in Depreciation Expense	3,125
Increase in Amortization of CIAC	-1,563
Increase in Taxes other than Income - State	506
Increase in Taxes other than Income - Town	1,100
Increase in Business Taxes - State	53
Increase in Income Taxes - Federal	<u>85</u>
Total Increase in Operating Expenses	<u>3,307</u>
Total Additional Revenue Required	\$4,364
2008 Operating Revenues	<u>138,667</u>
Total Revenue Required	<u>*****</u>
Percentage Increase Required	<u>3.15%</u>

SPSt. Cyr  
6/30/2009

NA

## Plant

## Preliminary Accumulated Depreciation and Depreciation Expense

PUC Acct. No.	Description	Cost	Depr. Rate	Annual Cost	Accum Depr.
304	Structure - 30,000 gallon atmospheric tank	\$85,000	2.50%	\$2,125	\$1,063
304	Structure - Variable Frequency Drives	10,000	10.00%	1,000	500
	TOTAL	<u>\$95,000</u>		<u>\$3,125</u>	<u>\$1,563</u>

SPSt. Cyr  
6/30/2009



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## CIAC

## Preliminary Accumulated Amortization of CIAC and Amortization of CIAC

PUC Acct. No.	Description	Cost	Depr. Rate	Annual Cost	Accum Amort
304	Structures - 30,000 gallon atmospheric tank	\$42,500	2.50%	\$1,063	\$531
304	Structure - Variable Frequency Drives	<u>5,000</u>	10.00%	<u>500</u>	<u>250</u>
	TOTAL	<u>\$47,500</u>		<u>\$1,563</u>	<u>\$781</u>

SPSt. Cyr  
6/30/2009

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**Taxes**

				Projected Costs
<u>State Property Taxes</u>				
Total Project Costs				\$95,000
Accumulated Depreciation				<u>1,563</u>
Net Plant				<u>\$93,438</u>
Thousand Dollars of Assessed Value				<u>\$93</u>
Adjusted \$000 of Assessed Value	243,037	295,989	82.11%	\$77
Property Tax Rate				<u>6.60</u>
State Property Taxes				<u>\$506</u>
<u>Local Property Taxes</u>				
Total Project Costs				\$95,000
Accumulated Depreciation				<u>1,563</u>
Net Plant				<u>\$93,438</u>
Thousand Dollars of Assessed Value				<u>\$93</u>
Adjusted \$000 of Assessed Value	222,000	295,989	75.00%	\$70
Property Tax Rate				<u>15.70</u>
Local Property Taxes				<u>\$1,100</u>

SPSt. Cyr  
6/30/2009

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**Income Taxes**State Business Taxes

Pretax Income	\$ 622
State Business Taxes Rate	<u>8.50%</u>
State Business Taxes	<u>\$53</u>

Federal Income Taxes

Pretax Income	\$622
State Business Taxes	<u>-53</u>
Pretax Federal Income	\$569
Federal Income Rate	<u>15.00%</u>
Federal Income Taxes	<u>\$85</u>

SPSt. Cyr  
6/30/2009

**Lakeland Management Company****SPS 10**

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Total Costs of Projects	<u>\$95,000</u>
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**Source of Funds:**

State of New Hampshire - Loan	\$47,500
State of New Hampshire - Grant	<u>47,500</u>
Total Source of Funds	<u>\$95,000</u>

**Use of Funds:**

30,000 gallons of additional atmosphere storage tank	\$85,000
Variable Frequency Drives	<u>10,000</u>
Total Use of Funds	<u>\$95,000</u>

SPSt. Cyr  
6/30/2009

**0****Estimated Financing and Step Increase Costs**

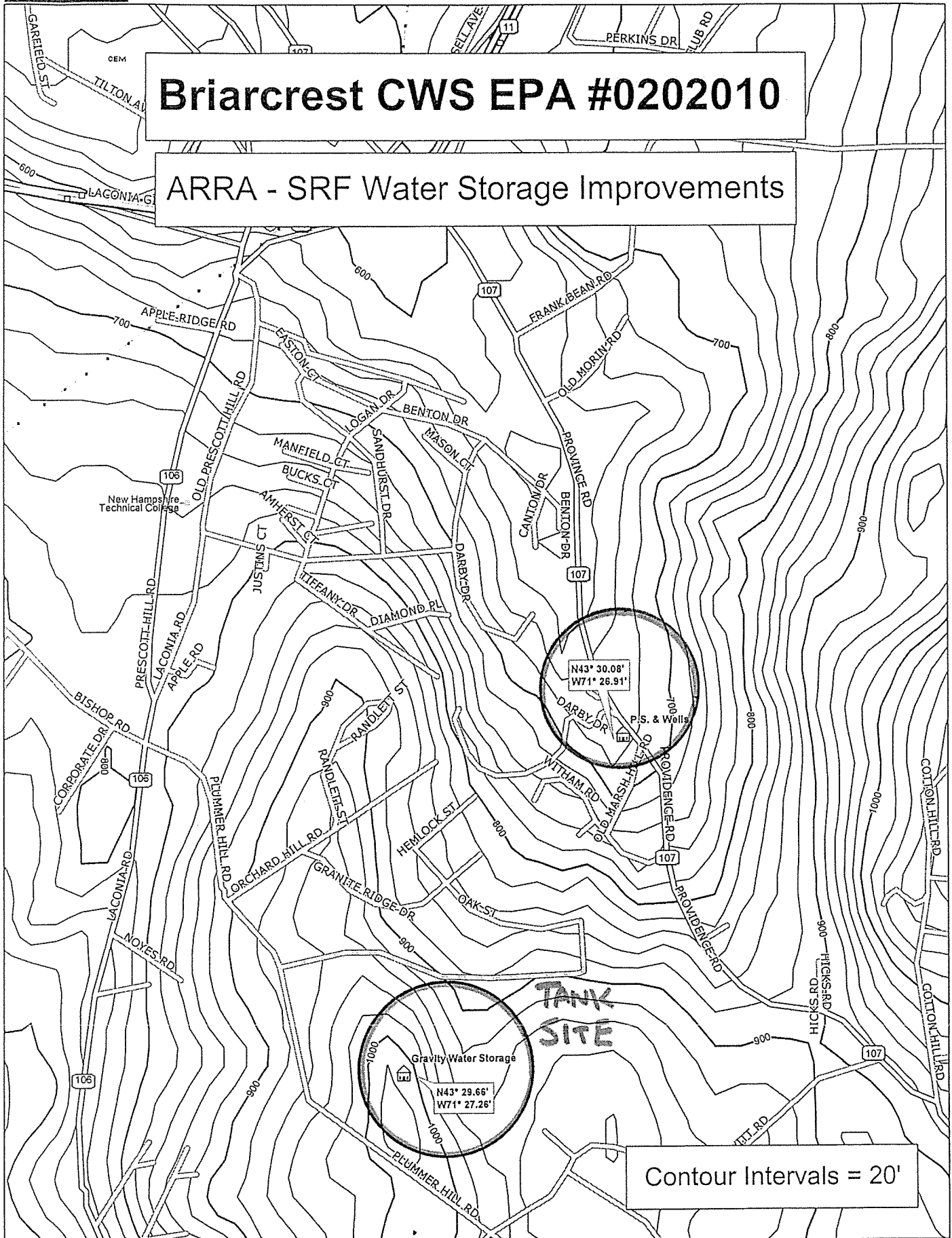
Stephen P. St. Cyr & Associates	<u>1,500</u>
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Total Financing Costs	<u>\$1,500</u>
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SPSt. Cyr  
6/30/2009

# Briarcrest CWS EPA #0202010

## ARRA - SRF Water Storage Improvements



Contour Intervals = 20'

Data use subject to license.

© 2006 DeLorme. Topo USA® 6.0.

www.delorme.com

Scale 1 : 12,000

