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Lorden Commons Sewer Company, LLC

before the

New Hampshire Public Utilities Commission

DW 13-305

Direct Testimony of Stephen P. St. Cyr

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, which primarily provides
accounting, management, regulatory and tax services. The Company devotes a
significant portion of the practice to serving utilities. The Company 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 St. Cyr & Associates, 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.

1 Q. Is St. Cyr & Associates presently providing services to Lorden Commons Sewer
2 Company (“Company”)?

3 A. Yes. St. Cyr & Associates is assisting the Company in preparing this rate filing.
4 It has been engaged to prepare the various revenue / rates exhibits, supporting
5 schedules and written testimony.

6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to support the Company’s efforts to establish a
8 sewer rate to its customers so as to reflect in rates its contributed plant in rate base
9 and its proposed expenses.

10 Q. Briefly, please describe the franchise area, the subdivision, ownership and the
11 sewer system.

12 A. In DW 11-139 the Public Utilities Commission (“PUC”) approved the Company’s
13 request for a new sewer franchise in the northeastern portion of the Town of
14 Londonderry. The franchise is proposed to provide sewer service to a proposed
15 residential subdivision known as Lorden Commons. The proposed development
16 is to be constructed by Chinburg Builders, Inc. (“Chinburg”) and will consist of
17 single family, three bedroom homes. An initial 50 homes will be built in phase I
18 over a two year period beginning in the fall of 2013. Additional phases are
19 expected to add 82 homes over the ensuing three to four years period. Initial
20 sewer service is anticipated in the fall of 2013.

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1 The sewer system is to be owned and operated by the Company, of which,
2 Chinburg is the sole member. The system will collect sewage from the
3 development and deliver it, by gravity and force main, into the City of
4 Manchester sewer system for treatment and disposal.

5 Q. How was the sewer system funded?

6 A. The sewer system was funded by Chinburg and contributed as contribution in aid
7 of construction (“CIAC”) to the Company.

8 Q. How are the sewer plant and the related CIAC reflected in the rate filing?

9 A. The sewer plant and the related CIAC have been added to rate base.

10 Q. Is there anything that you would like to discuss before you continue your
11 testimony?

12 A. Yes, because this is a new franchise area with no actual operating experience, the
13 Company has had to estimate its annual operating expenses. In order to do so, it
14 has used actual 2012 operating results from two sewer companies that St. Cyr &
15 Associates manages. One of the two sewer companies is set up similarly to the
16 Company in that it collect sewage from the development and delivers it by gravity
17 and force main, into the City of Manchester sewer system for treatment and
18 disposal. The estimated annual operating expenses are the average of the two
19 sewer companies.

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1 Q. Is there anything that you would like to discuss before you continue your
2 testimony?

3 A. No.

4 Q. Are you familiar with the pending rate application of the Company and with the
5 various exhibits submitted as Schedules 1 through 4 inclusive, with related pages
6 and attachments?

7 A. Yes, I am. The exhibits were prepared by me.

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

9 A. The Company is utilizing the actual 2012 operating results from two sewer
10 companies that St. Cyr & Associates manages..

11 Q. Would you summarize the schedule entitled “Computation of Revenue Deficiency
12 for the Test Year ended December 31, 2012”?

13 A. Yes. This schedule summarizes the supporting schedules. The actual revenue
14 deficiency for the test period amounts to \$73. However, the Company was not
15 operating in 2012 and had no revenues and minimal expenses during 2012.
16 The proforma revenue deficiency for the test year amounts to \$0. The Company’s
17 rate base consists of contributed plant and the related depreciation and
18 amortization and a small amount of working capital. The Company’s weighted
19 average rate of return is 7.00%. As such, the rate of return of 7.00%, when
20 multiplied by the rate base of \$2,058, results in an operating income requirement
21 of \$144. The Company has proposed a revenue requirement of \$11,616 in order

1 to allow the Company to recover its expenses and to earn a fair and reasonable
2 return on its investment.

3 Q. Would you please explain Schedule 1 entitled “Statement of Income”?

4 A. The first column (column b) of Schedule 1 shows the actual operating results of
5 the Company from January 1, 2012 through December 31, 2012. As shown, there
6 is no revenue and minimal expenses. The second column (column c) shows the
7 proforma adjustments. It shows operating revenue of \$11,616, operating
8 expenses of \$11,399 resulting in a net operating income of \$217. The proforma
9 adjustments are supported by both schedules 1A and 1B. The third column
10 (column d) is the sum of column b & c. Overall, operating revenues are \$11,616,
11 operating expenses are \$11,472, resulting in net operating income of \$144.

12 Q. Would you please explain Schedule 1A entitled “Statement of Income – Proforma
13 Adjustments”?

14 A. Schedule 1A shows the proforma adjustments to operating revenue, operating
15 expenses, depreciation, amortization of CIAC, taxes other than income taxes and
16 state business taxes. The proforma adjustment to Operating Revenue represents
17 the amount of revenue required to cover the Company’s operating expenses plus
18 earn its rate of return on rate base. The proforma adjustment to Operating
19 Expenses represents the Company’s proposed annual operating expenses and is
20 supported by Schedule 1B. The proforma adjustment to Depreciation Expenses
21 represent annual depreciation expenses on the Company’s plant in service and is

1 supported by Schedule 3A. The proforma adjustment to Amortization of CIAC
2 Expenses represent annual amortization expenses on the Company's CIAC and is
3 supported by Schedule 3A. The proforma adjustment to Taxes other than Income
4 represents the Company's proposed annual state and town property taxes and is
5 supported by Schedule 1B. The proforma adjustment to State Business Taxes
6 represents the Company's business enterprise taxes and is supported by Schedule
7 1B.

8 Q. Would you please explain Schedule 1B entitled "Proposed Annual Operating
9 Budget"?

10 A. As indicated earlier, the Company has had to estimate its proposed annual
11 operating expenses. In order to do so, it has used actual 2012 operating expenses
12 from two sewer companies that St. Cyr & Associates manages. Overall, the level
13 of expense seems reasonable. The big items, maintenance and management, seem
14 reasonable. Insurance and utilities seem low. At this point, the Company is
15 unsure of the level of taxes. The Company will continue to work to refine the
16 proposed expenses.

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

18 A. Yes. This schedule shows the year end balances reflected on the balance sheets of
19 the Company for 2012. Utility Plant consists of franchise costs and sewer and
20 utility design costs and fees. The Company's Equity Capital consists of \$100 of
21 common stock and retained earnings of (\$73). Chinburg is the sole member. The

1 Company's other long term debt outstanding amounts to \$30,000. The debt is
2 owed to Chinburg.

3 Q. Would you please explain Schedule 3 entitled "Rate Base" and the supporting
4 schedules?

5 A. Rate base consists of plant in service, accumulated depreciation, cash working
6 capital and net CIAC. Plant in service amounts to \$589,661, accumulated
7 depreciation amounts to \$9,657, resulting in net utility plant of \$580,004. Cash
8 working capital amounts to \$2,058. Net CIAC amounts to (\$580,004). Total
9 Rate Base amounts to \$2.058. Plant in service, accumulated depreciation and net
10 CIAC are supported by schedule 3A. Cash working capital is supported by
11 schedule 3C.

12 Schedule 3A shows plant and CIAC and depreciation and amortization of
13 CIAC. Total plant is broken down by plant accounts. The Company uses the
14 PUC determined estimated life to calculate the annual depreciation expenses.
15 Similarly, total CIAC is broken down by plant accounts. The Company uses the
16 same PUC determined estimated life to calculate the annual amortization of
17 CIAC. Please note that all of the plant is contributed.

18 Schedule 3B shows the sewer plant cost per Severino Trucking Company
19 (Severino") Contract. Severino was the company that built the sewer system. Its
20 costs are summarized by plant accounts, by quantity, total price and portion of
21 total price associated with phase 1.

1 Schedule 3C shows the calculation of cash working capital.

2 Q. Would you please explain Schedule 4 entitled “Rate of Return Information”?

3 A. The Company’s overall rates of return is 7.00%. It is derived from the weighted
4 average cost rates associated with the actual long term debt and equity. The
5 Company’s capital structure consists of Equity and Debt Capital. The Company
6 has no short term debt. Its Actual Equity Capital consists of \$100 of Common
7 Stock and (\$73) of Retained Earnings. The Company has \$30,000 of long term
8 debt at year end. The Company is utilizing a cost of common equity of 9.60% as
9 determined by the PUC in recent water rate cases. The Company made no
10 adjustments to the capital structure.

11 Q. What is the overall revenue requirement?

12 A. The overall revenue requirement is \$11,616.

13 Q. Please explain the Report of Proposed Rate Changes.

14 A. The Report of Proposed Rate Changes shows the rate class, the effect of the
15 revenue change, the number of customers, the authorized present revenue, the
16 proposed revenue and the proposed change amount. The proposed change
17 amount is \$11,616. The average residential customer’s annual bill amounts to
18 \$232.32. Please note that the proposed rate excludes the Londonderry sewer fees
19 based on individual water usage and paid for by individual customers.

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

21 Yes, the Company has engaged the services of Stephen P. St. Cyr & Assoc. The

1 Company has agreed to an hourly fee of \$115.00 (plus out of pocket costs) for
2 work performed in preparation of the rate filing and pursuit of the rate increase
3 during the rate proceeding. The Company will make every effort to minimize its
4 rate case expenses.

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

6 A. Yes. The Company proposes to make the rate effective from the date of service
7 provided to customers.

8 Q. Would you please summarize what the Company is requesting in this docket?

9 A. Yes, the Company is requesting a proposed revenue requirement of \$11,616 and
10 an annual rate of \$232.32 effective from the date of service provided to
11 customers. The proposed revenue requirement enables the Company to earn a
12 7.00% rate of return on its investment on rate base of \$2,058.

13 Q. Does this conclude your testimony?

14 A. Yes.