

1 **STATE OF NEW HAMPSHIRE**

2 **PUBLIC UTILITIES COMMISSION**

3 **ABENAKI WATER COMPANY – TIOGA BELMONT DIVISION**

4 **DW 20-xxx**

5 **PETITION TO APPROVE NH DWGTF FINANCING FOR TANK AND GATE**
6 **VALVES**

7
8 **PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

9 Q. What is your name and business address?

10 A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,
11 Biddeford, ME.

12 Q. Who is your employer?

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

14 Q. What are your responsibilities in this case?

15 A. My responsibilities are to support Abenaki Water Company (“AWC”) – Tioga
16 Belmont Division’s (“TB”) financing request and to prepare the financial
17 schedules and prefiled direct testimony which describes the financing and the
18 financial schedules. In addition, I am prepared to testify in support of financing.

19 Q. Have you prepared testimony before this Commission?

20 A. Yes, I have prepared and presented testimony in numerous cases before the Public
21 Utilities Commission, including requests for new and expanded franchises,
22 requests for approval of Drinking Water & Groundwater Trust Fund (“DWGTF”),
23 State Revolving Funds (“SRF”), commercial bank and owner financings and
24 requests for rate increases.

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2 Q. What is the purpose of your testimony?

3 A. The purpose of my testimony is to support the AWC's effort to borrow \$45,000
4 and to receive a grant of \$5,000 from DWGTF, which will allow it to purchase
5 and install a 10,000 gallon concrete tank and 4 gate valves. The 10,000 gallon
6 concrete tank will increase storage capacity. The tank will replace a small 4,500
7 gallon tank. The 4 gate valves will be new to the water system and increase
8 system reliability. The new gate valves will allow TB to shut off parts of the
9 distribution and isolate main and/or service breaks.

10 Q. Please describe the NH DWGTF loan for \$45,000.

11 A. The term of the loan is 20 years. The interest rate will be 2.96%.

12 Q. When does AWC anticipate entering into the loan agreement with NHDES?

13 A. AWC anticipates entering into the loan agreement as soon as the Commission
14 approves the financing.

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

17 A. No.

18 Q. Has AWC TB determined the impact of the financing on the TB's financial
19 statements?

20 A. Yes. The purchase and installation of the tank and gate valves and the DWGTF
21 financing at 2.96% interest rate over 20 years and the grant will have a significant
22 impact on the TB's financial statements. I have prepared pro forma financial
23 statements identified as SPS 1 – SPS 11.

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

3 A. Yes. Generally, column (a) identifies the Line No., column (b) identifies the
4 account title and PUC account number. Column (c) reflects 2019 year end
5 balance. Column (d) identifies the adjustments for the tank and gate valves and
6 the financing/grant to the 2019 account balances. Column (e) is the sum of
7 columns (c) and (d).

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

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

10 The first adjustment reflects the net of the addition to utility plant for the
11 purchase and installation of the tank and gate valves amounting to \$50,000 and
12 the retirement from utility plant of the original cost of the 1970s 4,500 gallon tank
13 of \$4,194 being retired.

14 The second adjustment reflects the net of a half depreciation of \$596 on
15 the 2020 addition to plant and the \$4,194 retirement costs. Please note that the
16 1970s tank is fully depreciated.

17 The third adjustment reflects the change in cash. While the change in cash
18 is negative, it is what has to be done now. At some point, the net addition to plant
19 and the additional debt will be reflected in rates.

20 The fourth adjustment reflects the net of the estimated financing costs less
21 the amortization of such financing costs over 20 years.

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

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

4 Q. Please explain the adjustments on reflected on SPS 1–2.

5 A. Schedule SPS 1-2 contains 4 adjustments.

6 The first adjustment reflects the impact on net income of \$451. It reflects
7 projected increase revenue less projected increase in expenses such as
8 depreciation, amortization of CIAC, property taxes and interest expense.

9 The second adjustment reflects the net of the financing of \$43,325, consisting of
10 the initial borrowing of \$45,000 less the first year repayment of principle.

11 The third adjustment reflects the addition to CIAC from the NH DWGTF grant of
12 \$5,000.

13 The fourth adjustment of \$60 reflects 1/2 year amortization of the CIAC.

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

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

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

17 A. There are 6 adjustments to the Statement of Income.

18 The first adjustment is the projected increase in operating revenues. Please see
19 SPS-5.

20 The second adjustment is the projected increase in depreciation expense for a ½
21 year depreciation on the 2020 plant in service.

22 The third adjustment is the projected increase in amortization of CIAC for the ½
23 year amortization of CIAC on the 2020 grant.

1 The fourth adjustment is the projected increase in state and local property taxes.

2 The fifth adjustment is the projected increase in interest expense on the DWGTF
3 loan.

4 The sixth adjustment is the projected increase in amortization of debt expense.

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

6 A. The Current Year Balance is the balance at December 31, 2019 and is also
7 reflected on the Balance Sheet (see SPS 1-2). The adjustments are the change in
8 retained earnings due to the increase in net income and the change in long term
9 debt due to the DWGTF financing. The related capitalization ratios are shown on
10 the bottom half of the schedule. The Company's December 31, 2019 debt to
11 equity position is weighted toward debt. After the financing, the capital structure
12 will be more weighted toward debt. As noted in Mr. LaChance's testimony, debt
13 is less expensive to service than equity. With the projected increase in revenues,
14 AWC TB projects that over time the weighting will be closer to 50%/50% equity
15 to debt.

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

17 A. Schedule SPS-4 identifies the specific journal entries used to develop the
18 proforma financial statements. The significant journal entries are JE#2, the
19 borrowing of funds from NH DWGTF, JE#3, the purchase and installation of the
20 tank and gate valves, JE#8, the first year principal and interest payment on the
21 loan and JE#9, the projected increase in revenues.

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

2 A. SPS-5 shows the plant additions and retirement, accumulated depreciation and
3 depreciation expense, CIAC and the amortization of CIAC, resulting in projected
4 total additional rate base of \$44,464. SPS-5 also shows the projected rate of
5 return of 4.02% applied to the additional rate base, resulting in a return on
6 investment of \$1,787. In addition SPS-5 shows the increase in operating expenses
7 amounting to \$2,159. Finally, SPS-5 shows an increase in the revenue required of
8 \$3,947.

9 Q. Would please explain SPS-6?

10 A. SPS-6 shows the weighted average cost of capital amounting to 4.02%.

11 Q. Please explain SPS-7.

12 A. SPS-7 shows the plant, accumulated depreciation and depreciation expense.

13 Q. Please explain SPS-8.

14 A. SPS-8 shows the CIAC, the A/A of CIAC and amortization of CIAC.

15 Q. Please explain SPS-9.

16 A. SPS-9 shows the projected increase in property taxes as well as the combined
17 state and local property tax rate and percent of assessed value to net plant.

18 Q. Please explain SPS-10.

19 A. SPS-10 shows the source and use of the funds.

20 Q. Would you please explain SPS-11?

21 A. SPS-11 shows the estimated costs to pursue PUC approval of the financing.

22 Given the emergency nature of the financing / grant, AWC TB desires that the
23 PUC and its Staff will expedite the review and approval process.

1 Q. How does the AWC TB propose to repay the NH DWGTF loan debt?

2 A. AWC TB experienced a significant new loss in 2019. See SPS-2. AWC TB's
3 rates will have to increase in order to reflect the assets in rate base and the loan in
4 the capital structure.

5 Q. What does the AWC TB propose to do with the costs of the financing?

6 A. The costs associated with the PUC approval will be deferred and amortized over
7 the term of the 20 year term of the loan.

8 Q. Why should the Commission approve the financing?

9 A. The Commission should approve the financing because it is in the best interest of
10 the AWC TB and its customers. The financing will allow AWC TB to purchase
11 and install a new 10,000 gallon concrete storage and 4 gate valves, which will
12 increase storage capacity and increase system reliability.

13 Q. When should the Commission approve the financing?

14 A. AWC TB respectfully requests that the Commission approve the financing as
15 soon as possible so that the AWC TB can borrow the funds, purchase and install
16 the tank and gate valves and reduce the potential of future emergencies.

17 Q. Is there anything else that AWC TB would like to bring to the Commission's
18 attention?

19 A. No.

20 Q. Please summarize the approvals that AWC TB is requesting.

21 A. AWC TB respectfully requests that the PUC approve the financing and grant of
22 \$45,000 and \$5,000, respectively by NH DWGTF under the terms stated
23 previously.

1 Q. Does this conclude your testimony?

2 A. Yes.

3

4 SPSt. Cyr

5 04/03/20