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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

ABENAKI WATER COMPANY – ROSEBROOK DIVISION

DW 21-xxx

**PETITION TO APPROVE NH DWGTF FINANCING FOR ROSEBROOK
PRESSURE REDUCTION PROJECT**

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 Abenaki Water Company (“AWC”) –
Rosebrook Division’s (“RB”) financing request and to prepare the financial
schedules 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 Drinking Water & Groundwater Trust Fund (“DWGTF”),
State Revolving Funds (“SRF”), commercial bank and owner financings and
requests for rate increases.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to support AWC RB's effort to borrow up to
3 \$2,520,000 and to accept up to a \$280,000 grant from DWGTF, which will allow
4 it to build three new pump stations to reduce the water pressure throughout the
5 RB water system. Please note that the projected amounts are estimated and
6 subject to change once the Company has plans and specs for the pressure
7 reduction project ("PRP"). The system is sorely in need of a reduction in pressure
8 in order to provide water pressure to customers within the acceptable levels of
9 pressure and to be able to safely work on the water system. See Mr. Vaughan's
10 testimony.

11 Q. Please describe the NH DWGTF loan for \$2,520,000.

12 A. On February 8, 2021, the NH Drinking Water and Groundwater Advisory
13 Commission ("NH DWGAC") to the Drinking Water and Groundwater Trust
14 Fund ("DWGTF") completed their review of the Special Projects Assistance
15 Program funding application submitted by AWC. The NH DWGAC authorized a
16 funding award to AWC of up to \$2,520,000 and \$280,000 in loan and grant funds,
17 respectively. See attached SPS Exhibit 1. The term of the loan is 25 years. The
18 interest rate is set at 1.55% until August 1, 2021.

19 Q. What is the next step in order for the project funding to move forward?

20 A. The next step is for AWC to submit a final application. AWC is in the process of
21 preparing the final application. Once AWC has submitted the final application,
22 AWC will enter into loan and grant agreement, which must be approved by the
23 Governor and Executive Council.

1 Q. When does AWC anticipate entering into the loan and grant agreement?

2 A. AWC anticipates entering into the loan and grant agreement before August 1,
3 2021.

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

6 A. No.

7 Q. Has AWC RB determined the impact of the financing on the Company's financial
8 statements?

9 A. Yes. The PRP for the construction of three pump stations and other
10 improvements and the DWGTF financing at 1.55% interest rate over 25 years will
11 have a significant impact on the Company's financial statements. I have prepared
12 pro forma financial statements identified as SPS 1 – SPS 11.

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

15 A. Yes. Generally, column (a) identifies the Line No. column (b) identifies the
16 account title and PUC account number. Column (c) reflects 2020 Total Company
17 year end balance. Column (d) identifies the adjustments for the RB PRP
18 Improvements and the financing to the 2020 account balances. Column (e) is the
19 sum of columns (c) and (d). Please note that the 2020 balances are unaudited and
20 subject to change upon completion of the 2020 audit. AWC Total Assets and
21 Other Debits amount to \$2,605,114, of which net plant amounts to \$1,869,064.
22 AWC also has a significant amount of preliminary survey and investigation
23 charges and miscellaneous deferred debits, a number of which are being addressed

1 in DW 20-112. Total Equity Capital and Liabilities amount to \$2,605,114, of
2 which there is total equity of \$1,079,216 and total other long-term debt of
3 \$525,592. AWC also has a significant A/P to New England Service Company
4 (“NESC”), AWC’s parent company.

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

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

7 The first adjustment reflects the addition to utility plant for the RB PRP
8 Improvements amounting to \$2,900,000. There are no retirements since the
9 improvements are all new additions.

10 The second adjustment reflects a half depreciation of \$50,780 on the 2020
11 addition to plant.

12 The third adjustment reflects the reduction in cash. While the change in
13 cash is negative, it has to be done now because it is in the best short term and long
14 terms interest of Company and customers. At some point, the addition to plant
15 and the additional debt will be reflected in rates.

16 The fourth adjustment reflects the net of the estimated financing costs less
17 the amortization of such financing costs over 25 years.

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

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

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

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

1 The first adjustment reflects the impact on net income, namely an increase
2 of \$46,711. It reflects projected increase in revenue less projected increase in
3 expenses such as depreciation, amortization of CIAC, property taxes, interest
4 expense and amortization of financing costs.

5 The second adjustment reflects the net of the financing of \$2,436,818,
6 consisting of the initial borrowing of \$2,520,000 less the first year repayment of
7 principle.

8 The third adjustment reflects CIAC from the grant funds of \$280,000.

9 The fourth adjustment reflects the amortization of the CIAC amounting to
10 (\$4,903).

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

12 A. The description of the columns is the same as SPS 1-1. Again, please note that
13 the 2020 balances are unaudited and subject to change upon completion of the
14 2020 audit. AWC has total operating revenues of \$717,353. AWC has total
15 operating expenses of \$801,506. The net operating income (loss) amounts to
16 (\$84,153). The net income (loss) amounts to (\$102,999). The revenues and
17 expenses associated with the non RB water and sewer systems are subject to the
18 rate case in DW 20-112.

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

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

21 The first adjustment is the projected increase in operating revenues
22 amounting to \$188,611. Please see SPS-5.

1 The second adjustment is the projected increase in depreciation expense of
2 \$50,780 for a ½ year depreciation on the 2020 plant in service. See SPS-7.

3 The third adjustment is the projected increase in amortization of CIAC of
4 (\$4,903) for a ½ year amortization on the 2020 plant in service. See SPS-9.

5 The fourth adjustment is the projected increase in state and local property
6 taxes of \$57,152. Also, see SPS-7.

7 The fifth adjustment is the projected increase in interest expense of
8 \$38,471 on the DWGTF loan.

9 The sixth adjustment is the projected increase in amortization of debt
10 expense of \$400.

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

12 A. The 12/31/20 balances are also reflected on the Balance Sheet (see SPS 1-2). The
13 adjustments are the change in retained earnings due to the increase in net income
14 and the change in long term debt due to the DWGTF financing. The related
15 capitalization ratios are shown on the bottom half of the schedule. The Total
16 Company's December 31, 2020 debt to equity position is weighted toward equity.
17 After the debt financing, the capital structure will completely flip, resulting in
18 debt to equity position weighted more towards debt. While obviously not an ideal
19 capital structure, debt is less expensive to service than equity. This debt is
20 particularly attractive due to its significant low interest rate over 25 years. With
21 the projected increase in revenues due to the project, over time the weighting will
22 improve.

23

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

2 A. Schedule SPS-4 identifies the specific journal entries used to develop the
3 proforma financial statements. The significant journal entries are JE#2, the
4 borrowing of funds from NH DWGTF, JE#3, the expenditures related to the RB
5 PRP Improvements, JE#8, the first year principal and interest payment on the loan
6 and JE#9, the projected increase in revenues.

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

8 A. SPS-5 shows the plant additions and accumulated depreciation and the CIAC and
9 the accumulated amortization of CIAC, resulting in a projected net additional rate
10 base of \$2,745,123. SPS-5 also shows the projected rate of return of 1.54%
11 applied to the additional rate base, resulting in a return on investment of \$39,705.
12 In addition, SPS-5 shows the increase in operating expenses amounting to
13 \$148,906. Finally, SPS-5 shows an increase in the revenue required of \$188,611.
14 It is a significant increase needed to support a generational investment and to
15 solve a long overdue water pressure problem.

16 Q. Would you please explain SPS-6?

17 A. SPS-6 shows the weighted average cost of capital amounting to 1.54%.
18 Fortunately, for the Company, the funds are available and the interest rate is
19 attractive.

20 Q. Please explain SPS-7.

21 A. SPS-7 shows the plant, accumulated depreciation, depreciation expense and state
22 and local property taxes.

23

1 Q. Please explain SPS-8.

2 A. SPS-8 shows System Improvements for Pressure Reduction per Horizon
3 (“Horizon”) Engineering Inc.’s Opinion of Probable Costs plus Management’s
4 Determination of Additional Estimated Costs. Originally, Horizon Opinion of
5 Probable Costs was \$1,410,000. Since that time the Company believes that the
6 costs have approximately doubled, now estimated to be \$2,900,000. The
7 Company has engaged Horizon to prepare plans and specification, to be
8 completed by August 1, 2021, addressing the compliance issues regarding the
9 excessive operating pressure at the lower elevation, and lack of adequate
10 secondary containment for the chemical feed system at the system primary pump
11 station. See Mr. Vaughan’s testimony, Exhibit 2.

12 Q. Please explain SPS-9.

13 A. SPS-9 shows the CIAC, accumulated amortization of CIAC and amortization of
14 CIAC.

15 Q. Please explain SPS-10.

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

17 Q. Would you please explain SPS-11?

18 A. SPS-11 shows the estimated costs to pursue PUC approval of the financing.
19 Given the emergency nature of the financing, AWC RB desires that the PUC and
20 its Staff review and approval the petition by no later than June 15, 2021 so that the
21 Company has time to close on the loan and maintain the 1.55% interest rate.

22

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- 1 Q. How does the AWC RB propose to repay the NH DWGTF loan debt?
- 2 A. AWC experienced a significant net loss in 2020. See SPS-2. AWC RB's
3 rates/revenue will have to increase in order to reflect the assets in rate base and
4 the loan in the capital structure.
- 5 Q. What does the AWC 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 25 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 RB and its customers. The financing will allow AWC RB to make the
11 necessary improvements and to address a long overdue issue, namely to reduce
12 the water pressure to acceptable pressure levels, which will increase system
13 reliability.
- 14 Q. When should the Commission approve the financing?
- 15 A. AWC RB respectfully requests that the Commission approve the financing by no
16 later than June 15, 2021 so that the AWC RB can borrow the funds, make the
17 improvements, reduce the water pressure and increase the system reliability.
- 18 Q. Is there anything else that AWC RB would like to bring to the Commission's
19 attention?
- 20 A. No.
- 21 Q. Please summarize the approvals that AWC RB is requesting.
- 22 A. AWC RB respectfully requests that the PUC approve the financing of \$2,520,000
23 by NH DWGTF under the terms stated previously by no later than June 15, 2021.

1 Q. Does this conclude your testimony?

2 A. Yes.

3 SPSt. Cyr

4 03/22/21