STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: West Swanzey Water Company

DW 12-____

DIRECT PREFILED TESTIMONY OF

STEPHEN P. ST. CYR

February 17, 2012

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 prepare the financial schedules and the pre-filed direct testimony describing the financing and the financial schedules.

Q. Have you prepared testimony before this Commission?

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

Q. Have you prepared and presented testimony to this Commission on behalf of West Swanzey Water Company ("Company")?

A. Yes, mostly recently in DW 10-159.

Q. Briefly, please summarize the outcome of DW 10-159.

A. In PUC Order No. 25,203 dated March 15, 2011 the PUC approved permanent rates and a step adjustment.

Q. Please describe the step adjustment.

A. The step adjustment was allowed for recovery of an estimated $33,000 in capital improvements planned for well #2 and such improvements were to be completed by December 31, 2011. The Company also agreed to file a financing petition when the financing was secured.

Q. Has the Company secured financing for the improvements?

A. Yes. The Company recently was informed by the State that the improvements were eligible for State Revolving Funds ("SRF").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's filing requesting Commission approval for both funding and expenditure of $40,000 for the redevelopment of well #2 and repair or replacement of the associated well pump.

Q. Have the costs of the improvements increased?

A. As part of its requests to the State for SRF, the Company added a $7,000 contingency. Otherwise, the estimated costs remain the same.

Q. Is there anything else that you would like to say about the financing?

A. Yes. 25% of the estimated loan will be forgiven over the 20 year life of the loan. The amount forgiven does not have to be repaid, and will be treated as Contribution in Aid of Construction ("CIAC") as the principal amount is forgiven.

The remaining 75% of the funds must be repaid over a 20 year period at an interest rate of 3.104%.

Q. Is the Company seeking an order “NISI”?

A. Yes. The Company is seeking an order “NISI” from the Commission because the SRF with the 25% forgiveness recently became available and the improvements were planned and approved as part of DW 10-159.

Q. Thank you! Can you now explain in a little more detail, through your testimony, the Company’s purpose for this proposed financing and step adjustment?

A. The purpose of my testimony is to support the Company’s effort to obtain PUC approval to borrow funds from the State Revolving Funds and to use such capital to redevelop well #2 and repair or replace the associated well pump.

Q. Please describe the supply situation at well #2.

A. Well #2 is the original 40+ year old pump and motor. The well has never been cleaned. Well pump #2 is operating at about 50% as efficient as well pump #1. The estimated savings on the total electrical bill is 25%. The proposed improvements are needed to enhance reliability of water to the service area, improve efficiency and reduce power costs.

Q. When does the Company anticipate that the well redevelopment and pump repair or replacement will be completed?

A. The Company anticipates that the project will be completed by September 30, 2012.

Q. What are the costs of redeveloping the well and repairing or replacing the well pump?

A. The estimated costs of redeveloping the well and repairing or replacing the well pump are $40,000.

Q. Please summarize the total costs to be financed.

A. A summary is as follows:

Well #2 Redevelopment	$20,000
Well #2 Pump Repair or Replacement	20,000
Total Financing	$40,000

Q. How does the Company propose to finance the projects?

A. The Company proposes to finance the entire project with SRF.

Q. How much is the total financing?

A. The total financing amounts to $40,000, of which $10,000 will be forgiven over 20 years.

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

A. The term is 20 years. The interest rate is 3.104%. The Company is assuming that the loan repayment begins January 1, 2013.

Q. Why should the Commission approve the SRF financing?

A. The Commission should approve the financing because the proposed SRF financing is in the best interest of the public and consistent with the public good. The financing enables the Company to increase the reliability of its supply and enhance the Company's ability to provide safe, reliable and adequate water to its customers. The project is necessary in order to insure present and future water supply.

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

A. The Company proposes to utilize the step adjustment approved in DW 10-159.

Q. What are the consequences if step adjustment is not approved?

A. If the step adjustment is not approved, the Company would be unable to repay the SRF loan to the State. If the Company cannot repay the SRF loan, NHDES would have no choice but to disqualify the Company from receiving the funds for the project. If the Company is disqualified from receiving the funds, the project would be delayed. If and when such project was to go forward at a later date, both the Company and its customers will pay more.

Q. What is the Company proposing for the step adjustment associated with this project?

A. The Company is proposing a step adjustment for the project upon completion and when such project is providing service to customers. The Company anticipates that the project will be completed by September 30, 2012. The Company believes that a likely timeline would be for service to be provided by October 1, 2012 and new rates to be billed on or about January 1, 2013.

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

A. The revenue requirement is $4,260.

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

A. Yes. There is one set of schedules identified as SPS 1 thru 11.

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

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b) references the PUC account number. Column (c) provides the account title. Column (d) identifies the actual December 31, 2010 account balances. Column (e) identifies the financing and step increase adjustments to the December 31, 2010 account balances. Column (f) is the sum of columns (d) and (e) and identifies the proformed December 31, 2010 account balances.

Q. Please explain the proforma adjustments related to SRF financing and step adjustment.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant represents the additions to plant in service for the well #2 project amounting to $40,000.

The second adjustment of $1,333 to Accumulated Depreciation is for the half-year depreciation on the $40,000 of plant additions.

The third adjustment of ($375) to Cash is the net of the cash received from the financing and the proposed step increase, less payment for the new plant, the repayment of the new loan, and the payment of operating expenses.

The fourth adjustment of $1,425 to Miscellaneous Deferred Debits is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of those expenditures related to the financing.

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 financing and step adjustment.

A. Schedule SPS 1-2 contains 3 adjustments.

The first adjustment of $1,200 to Retained Earnings represents the net income impact of the various income statement transactions (i.e., revenue, operating and maintenance expenses, depreciation and amortization expenses, taxes and interest expense).

The second adjustment of $38,034 to Other Long Term Debt represents the net amount of the additional debt financing of $40,000 less the first year repayment on the additional debt financing of $1,466.

The third adjustment of $483 to Contribution in Aid of Construction – Net represents the amount of the loan forgiveness of $500 less the half-year amortization of CIAC of $17.

Q. Would you please explain Schedule SPS 2, 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 SRF financing and step adjustment.

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

The first adjustment of $4,260 to Operating Revenue represents the revenue requirement associated with the additions to plant. The revenue requirement allows the Company to recover its investment, earn a return on the unrecovered investment, and to recover its operating expenses.

The total adjustment to Operating Expenses is $1,764. The adjustments to Operating Expenses consist of lower electrical costs, depreciation, amortization of CIAC and taxes other than income and income taxes. The significant adjustments are the increase in depreciation expense, the increase in the taxes other than income associated with state and local property taxes. the decrease in the electrical costs due to more efficient operations and the increase in interest expense

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

A. The actual 12/31/10 Current Year End Balance is reflected on this schedule. In addition, the proformed 12/31/10 Year End Balance reflects the impact of the SRF financing and step adjustment's capital structure. The related capitalization ratios are shown on the bottom half of the Schedule. Overall, the Company's capital structure is heavily weighted towards debt. The Company believes that earnings will improve with the recent approval of new permanent rates and the proposed step adjustment. Long term debt will decline as the Company pays principal on the debt.

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 (1) JE#2, the SRF financing, (2) JE#3, the utilization of the funds for the well project, (3) JE#8, the repayment of the principal and interest on the loan, and (4) JE#10, the receipt of revenue, less the increase in operating expenses from the step increase.

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

A. The Company's ability to repay the new debt is only possible with approval of the step adjustment related to this project.

Q. Would you like to explain SPS-5 – Preliminary Calculation of Revenue Requirement?

A. The sum of the additions to plant of $40,000, less the related accumulated depreciation of $1,333, results in net plant of $38,667. The sum of the CIAC of ($500), less the related accumulated amortization of $17, results in net CIAC of ($483). The reduction of $185 to cash working capital is due to the reduction of purchased power expenses. The addition of the net plant of $38,667, less the net CIAC of $483, less the working capital of $185, results in a total additional rate base of $37,998. The Company is applying a 3.104% interest rate to determine the additional net operating income required of $1,179. In addition, the Company adds total increase in operating expenses of $3,080 to the additional net operating income required in order to determine the total additional revenue requirement of $4,260. The additional revenue requirement of $4,260 added to the 2010 operating revenues of $62,295 results in a total revenue requirement of $66,555.

Q. Would you please explain SPS-6?

A. SPS-6 is a schedule of plant and depreciation. The Company is using "typical water company service lives and depreciation rates" on the new plant.

Q. Would you please explain SPS-7?

A. SPS-7 is a schedule of CIAC and amortization of CIAC. The Company is using the same service lives and depreciation rates for the amortization of CIAC as the Company used for the depreciation of the contributed assets.

Q. Would you please explain SPS-8, Taxes other than Income?

A. SPS-8 is a schedule of state utility property taxes and local property taxes. Please note that the Company is assuming that the assessed value for state and local property taxes is 79% and 97%, respectively, of the total plant costs. The percentages are derived from the percentage of the most recent assessed value to net utility plant. The Company is then applying the 2010 state and local property tax rate to the state and local property tax assessment.

Q. Would you please explain SPS-9, Income Taxes?

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

Q. Would you please explain SPS-10, Source and Use of Funds?

A. SPS-10 is a schedule showing the total costs of the project, the total source of funds and the total use of funds.

Q. Would you please explain SPS-11, Estimated Financing Costs?

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

Q. What does the Company propose to do with the estimated financing costs?

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

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

A. No.

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

A. The Company respectfully requests that the PUC approve by NISI order the SRF financing of $40,000, $10,000 of which is an estimated loan forgiveness over 20 years.

Q. Does this conclude your testimony?

A. Yes.