

STEPHEN P. ST. CYR & ASSOC.

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Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
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Management Services

1 Rosebrook Water Company

2 before the

3 New Hampshire Public Utilities Commission

4 DW 12-306

5 Supplemental Direct Testimony of Stephen P. St. Cyr

6 Q. Please state your name and address.

7 A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates ("SPS&A"), 17 Sky Oaks
8 Drive, Biddeford, Me. 04005.

9 Q. Please state your present employment position and summarize your professional
10 and educational background.

11 A. I am presently employed by SPS&A, which primarily provides accounting,
12 management, regulatory and tax services. SPS&A devotes a significant portion of
13 the practice to serving utilities. SPS&A has a number of regulated water and
14 sewer utilities among its cliental. I have prepared and presented a number of rate
15 case filings before the New Hampshire Public Utilities Commission ("PUC").
16 Prior to establishing SPS&A, I worked in the utility industry for 16 years, holding
17 various managerial accounting and regulatory positions. I have a Business
18 Administration degree with a concentration in accounting from Northeastern
19 University in Boston, Ma. I obtained my CPA certificate in Maryland.

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1 Q. Is SPS&A presently providing services to Rosebrook Water Company
2 ("Rosebrook" or "Company")?

3 A. Yes. SPS&A assists the Company in its year end closing and preparation of
4 financial statement and tax returns. SPS&A assists the Company in various
5 regulatory. It prepared the November 20, 2012 rate filing including the various
6 revenue / rates exhibits, supporting schedules and written testimony.

7 Q. What is the purpose of your supplemental direct testimony?

8 A. The purpose of my supplemental direct testimony is to explain changes in costs
9 and the way personnel provide services to Rosebrook.

10 Q. Briefly, please describe the personnel arrangement and costs during the test year
11 (2011).

12 A. From January 1, 2011 to July 31, 2011 the Company had a management
13 agreement with BW Club ("BW Club Agreement") to provide management and
14 administrative services necessary to insure that the Company operated in an
15 efficient and businesslike manner and in compliance with regulations of the
16 NHDES and NHPUC. The Company paid \$7,200 per month for the services.

17
18 From August 1, 2011 to December 31, 2011 the Company had a management
19 agreement with BW Services ("BW Services Agreement") to provide the
20 management and administrative services. The BW Services Agreement
21 superseded the BW Club Agreement, and the same services were provided as

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1 under the BW Club Agreement. The Company paid \$6,700 per month for the
2 services.

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4 Also, during 2011, the Company had a technical management agreement with
5 MWH Construction Company ("MWH Construction Agreement") for onsite
6 technical management, construction expertise, and maintenance of the Company's
7 facilities. The Company paid \$1,450 per month for the services.

8 Q. What were the total expenses incurred in 2011 under these affiliated agreements?

9 A. The Company incurred \$50,400 under the BW Club Agreement. The Company
10 incurred \$33,500 under the BW Services Agreement. The Company incurred
11 \$17,000 under the MWH Construction Agreement.

12 Q. Is there anything else that you want to say about the costs incurred under these
13 affiliate agreements.

14 A. Yes, as described in my direct testimony as part of the November 20, 2012 rate
15 filing (see pg. 3, lines 12 – 16), in 2011, BW Club and MWH Construction wrote
16 off intercompany balances owed by Rosebrook, including \$30,302 and \$16,932
17 for management and operations, respectively. The result of the write offs were to
18 reduce 2011 expenses. The proforma adjustments related to management and
19 operations are essentially to restore the proper level of expense.

20 Q. Are the BW Services Agreement and the MWH Agreement still in place?

21 A. No. Both agreements terminated December 31, 2012.

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1 Q. What is the present personnel arrangement?

2 A. Effective January 1, 2013, Rosebrook hired 4 employees who had previously
3 provided services under the affiliate agreements. See Attachment A.

4 Q. What are the positions of the 4 employees?

5 A. The 4 positions include Drinking Waste and Wastewater Manager / Operator,
6 Assistant Operator, Controller / HR Administrator and Accounting Clerk.

7 Q. What is the total gross wages and related payroll taxes for the 4 employees?

8 A. The total gross wages and payroll taxes are \$186,700 and \$5,515, respectively.
9 See Attachment A, page 1 of 3.

10 Q. Is the Company offering any employee benefits and, if so, what are the costs?

11 A. The Company offers health, dental and life insurance. The total benefit costs are
12 \$19,633. See Attachment A, page 1 of 3.

13 Q. Are there any other costs that need to be taken into consideration?

14 A. Yes, the office personnel are renting space at a new location and have other costs
15 totaling \$21,185. See Attachment A, page 1 of 3.

16 Q. What are the total employee / other costs?

17 A. The total employee / other costs amount to \$233,033. See Attachment A, page 1
18 of 3.

19 Q. Are the 4 Rosebrook employees providing services to other entities?

20 A. Yes, the 4 Rosebrook employees provide services to Resort Waste Services and
21 BW Resort.

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1 Q. Is Rosebrook being reimbursed for such services?

2 A. The Company is being reimbursed 2/3 of the plant employees' costs and 1/2 of the
3 office employees' costs. See Attachment A, pages 2 & 3 of 3.

4 Q. Is there anything else that you would like to address concerning the employees'
5 costs?

6 A. In January 2013 the Company's Controller / HR Administrator retired. As such,
7 the costs associated with the Controller / HR Administrator's position are
8 estimated. In the interim, the owner representative and a third party are meeting
9 the job requirements of the position.

10 Q. How does the change in the personnel arrangement and the related costs affect
11 the rate filing?

12 A. Simply, it means that the Company needs to substitute the costs reflected in the
13 test year (2011) under the affiliate arrangements with the net costs associated with
14 the 4 employees.

15 Q. Has the Company substituted the costs and, if so, please describe.

16 A. Yes, the Company has substituted the costs. It has updated its rate case schedules
17 to reflect the change in costs.

18 Q. Please continue.

19 A. The Company made 7 adjustments to test year expenses. The specific adjustment
20 are identified with an "A" in front of the adjustment and are shown on Schedule

21 4A

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1 Q. Please provide a brief description of each adjustment.

2 A. **Adjustment A1** increases test year revenue by \$136,977 for the anticipated
3 revenues from Resort Waste and BW Waste for the reimbursement of services
4 provided by the Company's 2 plant employees.

5 **Adjustment A2** decreases test year expenses – outside services by \$80,400 for
6 the elimination of management and administrative services under the BW Club
7 Agreement and the BW Services Agreement.

8 **Adjustment A3** decreases test year expenses – outside services by \$17,000 for
9 the elimination of technical management and construction and maintenance
10 services under the MWH Construction Agreement.

11 **Adjustment A4** increases test year expenses – administrative and general salaries
12 by \$186,700 for the gross wages associated with the 4 employees.

13 **Adjustment A5** increases test year expenses – pension and benefits by \$19,633
14 associated with the 4 employees.

15 **Adjustment A6** increases test year expenses – miscellaneous general expenses /
16 general rents by \$21,185 for rent, electricity, telephone, etc. associated with the 4
17 employees.

18 **Adjustment A7** increases test year expenses – taxes other than income by \$5,515
19 for the payroll taxes associated with the 4 employees.

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1 Q. Are there any other adjustments?

2 A. Not specifically, however, because there is a net increase in operation and
3 maintenance expenses, there is an increase in cash working capital, which
4 increases rate base. Also, because there is an increase in rate base, there is an
5 increase in net income, which increases federal income and state business taxes.

6 Q. Is there a need to describe all the rate case schedules?

7 A. No. The rate case schedules were described in my original testimony. The rate
8 base schedules did not change, except for the change in cash working capital. The
9 rate of return schedules did not change. The income statement changed,
10 particularly the revenue and operation and maintenance expenses and the taxes,
11 but the adjustments are described above. The Company did not make any
12 changes to the other proforma adjustments. The balance sheet did not change.
13 The step increase schedules did not change.

14 Q. Overall, what is the impact on the rate filing?

15 A. The net result of eliminating the costs under the affiliate agreements and replacing
16 such costs with the net employee / other costs is an increase in the proposed
17 revenue requirement of \$2,215 (from \$70,058 to \$72,273).

18 Q. What is the impact on residential customers?

19 A. The impact on the residential customers is \$2.25 (from \$283.54 to \$285.79) per
20 year.

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1 Q. Is there anything else that needs to be updated?

2 A. Yes, both the Report of Proposed Rate Changes and the calculation of rates need
3 to be updated.

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

5 A. The Report of Proposed Rate Changes shows the rate class, the effect of the
6 revenue change, the number of customers, the authorized present revenue, the
7 proposed revenue, the proposed change amount and percentage. The proposed
8 change amount is \$72,273 or 34.62%. All of the change amounts apply to
9 residential and commercial customers. The average residential customer will
10 receive an annual increase of \$73.49, resulting in an average annual bill of
11 \$285.79. Even with the proposed increase in rates, Rosebrook's residential
12 customers have some of the lowest water rates in the state.

13 Q. Please explain the calculation of rates.

14 The total revenue requirement including the net result of eliminating the costs
15 under the affiliate agreements and replacing such costs with the net employee /
16 other costs is \$418,768. The Company reduces the total revenue requirement by
17 other water revenues and the anticipated revenue from Resort Waste and BW
18 Resort, resulting in a total revenue requirement of \$281,041 from residential and
19 commercial customers.

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1 First, the Company calculates the portion of revenue from the initial charges. In
2 doing so, it applies the overall percent increase of 34.62% to the present initial
3 charge per year per meter size to develop a new, proposed initial charge per year
4 per meter size. It then takes the new, proposed initial charge per year times the
5 number of meters to determine the revenue requirement from initial charges,
6 namely \$80,589.

7 Second, the Company takes the remaining revenue of \$200,452 to be realized
8 from consumption. It divides the remaining revenue by the 2011 actual
9 consumption of 37,832 (1000 gallons) to determine the consumption rate per 1000
10 gallons, namely \$5.30.

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

12 A. Yes. The Company continues to propose to make the existing rates temporary
13 until such time as the NHPUC makes a final decision on permanent rates. The
14 temporary rate date would be the date in which the Company provides notice of
15 the rate increase to its customers, namely January 8, 2013. The Company
16 believes that the net loss position justifies making the existing rates temporary.

17 Q. Would you please summarize what the Company is requesting with this
18 supplemental filing?

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- 1 A. Yes, the Company is requesting a permanent revenue increase of \$70,714. The
2 permanent revenue increase of \$70,714 enables the Company to earn a 10.78%
3 proforma rate of return on its investment, reflected in a proforma rate base of
4 \$481,782. Also, the Company is requesting a step increase of \$1,559, effective
5 upon completion of the work anticipated no later than December 31, 2012. The
6 step increase of \$1,559 enables the Company to recover the increase in property
7 taxes as a result of increase in plant. The average annual amount for a residential
8 customer will increase from \$212.30 to \$285.79, an increase of \$73.49 or 34.62%.
9 Finally, the Company is requesting that the existing rates be made temporary
10 pending the NHPUC decision on permanent rates.
- 11 Q. Does this conclude your testimony?
- 12 A. Yes.