

Stephen P. St. Cyr & Associates
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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 16-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

November 23, 2016

Stephen P. St. Cyr & Associates

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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 prefiled testimony and financial exhibits. In addition, I am available to represent the Company during the technical session / settlement conference and hearing and to respond to data requests and other matters related to this filing.

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 State Revolving Fund ("SRF"), commercial bank and owner financings and requests for general rate increases and step increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to secure a term loan of up to 20 years and a maximum of \$265,000 to replace mains

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and services at Paradise Drive and Lovewell Lane, collectively referred to a
“Projects.”

Q. Before you describe the financing, please provide some background.

A. In DW 15-209 the Company originally proposed borrowing \$416,000 from CoBank to purchase the Mt. Roberts land including AFUDC. During the course of the proceeding, it became obvious that the purchase of the AFUDC was not acceptable to the parties. As such, the Company proposed to purchase the Mt. Roberts land without AFUDC with a contribution of capital by its owner. The contribution increased the Company equity portion of its capital structure resulting in a higher rate of return. In an effort to lower the rate of return, the Company committed to finance certain projects with debt financing. The end result was a commitment by the Company to borrow funds to replace two main and service replacement projects. The financing, the projects and the related step increase are reflected in Step 2 of the settlement agreement awaiting approval by the PUC.

Q. What are the total costs of the Projects?

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A. The total costs of the Projects are as follows:

Paradise Drive mains and services	218,000
Lovewell Lane mains and services	<u>183,000</u>
Total	<u>401,000</u>

Q. How does the Company propose to finance such costs?

A. The Company proposes to borrow \$265,000 from CoBank and to contribute \$136,000 of additional paid in capital from the owner.

Q. What are the terms and conditions of the CoBank financing?

A. The proposed terms and conditions are 20 years at a 5.10% interest rate. Such terms and conditions are consistent with the recently PUC approved CoBank financing for the Company.

Q. Why did the Company not borrow the full amount from CoBank?

A. The Company was approved by CoBank for a \$400,000 loan, of which \$135,000 will be used for the purchase of and improvements to Dockham Shores (DW 16-619) and \$265,000 will be used for the Projects.

Q. How does the Company plan to fund the amount in excess of \$265,000?

A. The Company requested that the owner make a contribution of additional paid in capital of \$136,000.

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Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The replacement of mains and services at Paradise Drive allows the Company to replace old mains and services at a time when the Town of Moultonboro is redoing the road, resulting in lower costs and reducing water loss and maintenance. The replacement of mains and services at Lovewell Lane allows the Company to replace old mains and services at a time when the association is redoing the road, resulting in lower costs and reducing water loss and maintenance.

Q. How is the Company proposing to recover these investments?

A. The Company plans to request a step increase for the main and service replacement as part of step 2 increase as contemplated in DW 15-209.

Q. Is there anything else that you would like to address before you address the financing schedules?

A. No.

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

A. Yes. Generally, column (a) indicates the line number and column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2015 account balances. Column (d) identifies the pro forma

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adjustments to the December 31, 2015 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2015 additions to plant and related financings.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$401,000 represents the total additions to utility plant including the improvements to mains and services at Paradise Drive and Lovewell Lane.

The second adjustment to Accumulated Depreciation for \$4,363 represents the related half year depreciation on additions to utility plant including the mains and services at Paradise Drive and Lovewell Lane.

The third adjustment to Cash for \$357 is the net of the cash received from CoBank loan and from owner less costs associated with the replacement of main and services.

The fourth adjustment to Unamortized Debt Expense for \$13,300 represents the net of the financing costs and the amortization of such costs over 20 years, the life of the loan. The financing costs include a CoBank origination fee of \$4,000.

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

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

Q. Please explain the adjustments related to 2015 additions to plant and related financings.

A. Schedule SPS 1-2 contains 3 adjustments.

The first adjustment to Other Paid-In Capital for \$136,000 represents the owners' contribution of equity.

The second adjustment to Retained Earnings for \$17,124 represents the net income impact of changes to revenue, operating expenses and interest expense.

The third adjustment to Other Long Term Debt for \$257,171 represents the net amount of the borrowing of \$265,000 and the first year repayment of principal on the loan of \$7,829.

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

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to 2015 additions to plant and related financings.

A. There are 5 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of \$41,773 represents the additional revenue from the "Step 2 " increase for mains and services. The

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revenue requirement allows the Company to recover its investments and earn a return on such investment.

The second and third adjustments to Operating Expenses are for increases associated depreciation and with property taxes.

The fourth and fifth adjustments to Interest Expense and Amortization of Debt Expense represent the first year interest expense on the new debt and the first year amortization of the financing costs.

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

A. The actual 2015 Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's debt to equity position is weighted towards equity due primarily to the owner funding past acquisitions / improvements. The net addition of the debt will increase the debt to equity position.

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

A. Schedule SPS-4 identifies the specific journal entries used to develop the pro forma financial statements. The significant journal entries are the recording of JE#2 - the debt financing and additional paid in capital, JE#3 – the main and service replacements, JE#7 - the repayment of the principal and interest on the loan and JE#8 - the anticipated receipt of revenue from the step increases.

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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 the step increase for the main and service replacements.

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

A. SPS-5 shows the "Step 2" increase, amounting to an increase in net revenue of \$30,686 or 2.94% for the LRWC customer. The step increase allows the Company to recover its investment in the improvement in mains and services and earn a return on such investments.

Q. Would you please explain SPS-6, Weighted Average Cost of Capital?

A. SPS-6 shows the amount of the financings, weighted average percentages, the interest rate on the CoBank loan, the interest expense, the amortization of the financing costs, the total interest, the cost rates and the weighted average cost of capital, namely 6.76%.

Q. Would you please explain SPS-7, Plant, Accumulated Depreciation and Depreciation Expense?

A. SPS-7 is a schedule of costs by plant account and the related depreciation rates, annual depreciation costs and the accumulated depreciation at a half year.

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Q. Would you please explain SPS-8, Property Taxes?

A. SPS-8 is a schedule that shows the calculation of the increase in state and local property taxes.

Q. Would you please explain SPS-9, the Source and Use Statement?

A. The sources of the funds are CoBank and the owner. The use of the funds is the main and service replacements at Paradise Drive and Lovewell Lane.

Q. Would you please explain SPS-10, Estimated Financing Costs?

A. The Company estimates that it will incur approximately \$14,000 in financing costs including the CoBank origination fees of \$4,000 and legal and accounting fees of \$10,000 in order to pursue approval by the NHPUC.

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

A. The Company respectfully requests that the PUC approve the CoBank loan for a maximum of \$265,000 and the additional paid in capital from the owner of approximately \$136,000 to replace mains and services at Paradise Drive and Lovewell Lane.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

11/23/2016