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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY, INC.

DW 18-

PETITION FOR APPROVAL OF PENTUCKET BANK
REVOLVING WORKING CAPITAL LINE OF CREDIT
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 Hampstead Area Water Company, Inc's ("Company" or "HAWC") effort to obtain Public Utilities Commission ("PUC") approval of the Pentucket Bank \$1,000,000 Revolving Working Capital Line of Credit ("LOC"). My responsibilities include preparing the financial exhibits and prefiled direct testimony which describes the LOC and its impact on the financial statements. In addition, I am prepared to testify in support of financing.

1 Q. Have you prepared testimony before this Commission?

2 A. Yes, I have prepared and presented testimony in numerous cases before the Public
3 Utilities Commission, including requests for new and expanded franchises,
4 requests for approval of State Revolving Fund (“SRF”), commercial bank and
5 owner financings and requests for rate and step increases.

6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to support the Company’s effort to establish a
8 LOC, which will allow the Company to utilize such funds for mostly routine
9 capital projects, i.e., rebuild / replace pump station(s), drill wells, replace
10 pumping equipment, replace mains / services, replace meters, etc. without having
11 to have its owner put more equity into the Company and without getting PUC
12 approval for certain borrowings, i.e., vehicle loans.

13 Q. What is the loan amount?

14 A. The loan amount is a \$1,000,000 Revolving Working Capital Line of Credit.

15 Q. What is the purpose of the LOC?

16 A. The proceeds will be used to assist HAWC with the replacement / improvements
17 of plant to various water systems.

18 Q. What is the maturity date?

19 A. There is no maturity date. The LOC can be called on demand.

20 Q. What is the interest rate?

21 A. The interest rate is floating at the Prime Rate as published in the Wall Street
22 journal. The Prime Rate today is 5.00%.

23

1 Q. Did the Company consider any other LOC options?

2 A. No, the Company has an ongoing banking relationship with Pentucket Bank.

3 Q. How does the Company propose to recover its investment?

4 A. At some point, when the sum of the investments in plant reach such a point that it
5 begins to reduce the actual rate of return, the Company will pursue recovery of its
6 investment as part of a rate case.

7 Q. Has the Company determined the impact of the LOC and the additions to plant on
8 the Company's financial statements?

9 A. Yes. I have prepared proforma financial statements identified as SPS 1 – 8.

10 Q. Would you please explain Schedule SPS-1?

11 A. Schedule SPS-1 states the Major Assumptions, namely a \$1,000,000 LOC from
12 Pentucket Bank and utilization of 25% of the LOC in year 1.

13 Q. Please describe Schedule 2-1, entitled Balance Sheet – Assets and Other Deferred
14 Debits.

15 A. Yes. Generally, column (a) identifies the line number on the schedule. Column
16 (b) identifies the PUC account title and account number. Column (c) identifies
17 the actual December 31, 2007 account balances. Column (d) identifies the
18 adjustments. Column (e) reflects the adjusted December 31, 2007 account
19 balances for the 2018 LOC and related plant.

20 Q. Please explain the adjustments related to 2018 LOC and related plant.

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

22 The first adjustment to Utility Plant for \$250,000 represents the utilization
23 of 25% of the LOC for various additions to plant.

1 The second adjustment to Accumulated Depreciation for \$9,019 represents
2 a half-year depreciation on the \$250,000 of plant additions.

3 The third adjustment to Cash for (\$17,399) is the net of the cash received
4 from the LOC less payment for the new plant and the repayment of the LOC.
5 While the Company would prefer that the net cash be positive, the Company has
6 the cash to cover the negative cash impact.

7 The fourth adjustment to Miscellaneous Deferred Debits for \$7,313 is the
8 net of the costs incurred in order to pursue PUC approval of the LOC and the
9 amortization of the LOC financing costs.

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

12 A. The description of the columns is the same as SPS 2-1.

13 Q. Please explain the adjustments related to the 2018 LOC.

14 A. Schedule SPS 1-2 contains 2 adjustments.

15 The first adjustment to Retained Earnings for (\$15,418) represents the net
16 income impact of the various income statement transactions (i.e., depreciation
17 expenses and interest expense).

18 The second adjustment to Other Long Term Debt for \$246,312 represents
19 the net amount of the borrowings of \$250,000 and the first year repayment on the
20 principle of LOC of \$3,688.

21 Q. Would you please explain Schedule SPS 3, entitled Statement of Income?

22 A. The description of the columns is the same as SPS 2-1.

23 Q. Please explain the adjustments related to the 2018 LOC.

1 A. There are 3 adjustments to the Statement of Income.

2 The first adjustment to Depreciation Expense of \$9,019 represents the
3 increase due to a half-year depreciation on the additions to plant.

4 The second adjustment to Interest Expense of \$6,212 represents the first
5 year interest expense on the LOC.

6 The third adjustment to Amortization of Debt Expense of \$188 represents
7 the first year amortization of the LOC financing costs.

8 Q. Would you please explain Schedule SPS 4, entitled Balance Sheet, Equity Capital
9 and Liabilities?

10 A. The actual 2017 Current Year End Balance is also reflected on the Balance Sheet
11 (see SPS 2-2). The related capitalization ratios are shown on the bottom half of
12 the Schedule. The Company's debt to equity position is weighted towards debt
13 due to its negative equity position. The Company's owner has made significant
14 equity contribution in recent years. The Company expects that the ratio will
15 improve with the recently approved rate increase in DW 17-118.

16 Q. Please explain Schedule SPS-5, entitled Journal Entries.

17 A. Schedule SPS-5 identifies the specific journal entries used to develop the
18 proforma financial statements. The significant journal entries are the recording of
19 (1) the receipt of the funds from the LOC, (2) the utilization of the funds for the
20 additions to plant and (3) the repayment of the principal and interest on the loan,

21 Q. Would you like to explain SPS-6?

22 A. SPS-6 shows the likely uses of such funds, approximately 25% in year 1, the year
23 1 ½ year depreciation and the related accumulated depreciation.

- 1 Q. Would you please explain SPS-7?
- 2 A. SPS-7 shows the source and use of the funds. The source is Pentucket Bank. The
3 uses are various additions to plant in the various water systems.
- 4 Q. Would you please explain Schedule SPS 8?
- 5 A. SPS-8 shows the anticipated financing costs to pursue NHPUC approval.
- 6 Q. How does the Company propose to repay the LOC?
- 7 A. When the sum of the investments in plant reach the point that it begins to reduce
8 the actual rate of return, the Company will pursue recovery of its investment as
9 part of a rate case.
- 10 Q. Why should the Commission approve the financing and step increase?
- 11 A. The Commission should approve the financing because it is in the best interest of
12 the Company and its customers. The Company ability to access cash in order to
13 meet current capital needs is crucial to its operations and its ability to continue to
14 provide service to customers.
- 15 Q. Is there anything else that the Company would like to bring to the Commission's
16 attention?
- 17 A. No.
- 18 Q. Please summarize the approvals that the Company is requesting.
- 19 A. The Company respectfully requests that the PUC approve the Pentucket Bank
20 \$1,000,000 Revolving Working Capital Line of Credit.
- 21 Q. Does this conclude your testimony?
- 22 A. Yes.

Pentucket Bank Line of Credit

Major Assumptions

HAWC obtains \$1,000,000 line of credit from Pentucket Bank.

HAWC generally plans year 1 additions to plant (approximately 25% of \$1,000,000).

HAWC has assumed no CIAC related to year 1 additions.

HAWC has no immediate plan for rate increase related to year 1 additions to plant.

HAWC determines impact of year 1 line of credit financing on balance sheet, income statement and capital structure.

SPSt. Cyr
9/20/2018