

2 **STATE OF NEW HAMPSHIRE**

3 **PUBLIC UTILITIES COMMISSION**

4 **HAMPSTEAD AREA WATER COMPANY, INC.**

5 **DW 18-128**

6 **PETITION FOR APPROVAL OF EXPANSION OF FRANCHISE, CONTRACT,**

7 **ACQUISITION OF ASSETS AND APPLICATION OF EXISTING RATES**

8 **PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

9 Q. What is your name and business address?

10 A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,
11 Biddeford, Me.

12 Q. Who is your employer?

13 A. My employer is Stephen P. St. Cyr & Associates.

14 Q. What are your responsibilities in this case?

15 A. My responsibilities are to support Hampstead Area Water Company, Inc's
16 (Company or HAWC) effort to obtain Public Utilities Commission (PUC)
17 approval of expansion of the franchise area within the Town of Salem, and for
18 approval of contract, acquisition of assets and the application of the recently
19 approved consolidated rate to be applied to that area. My responsibilities include
20 preparing the financial exhibits and prefiled direct testimony which describes the
21 financial impact of the expansion of the franchise area. In addition, I am prepared
22 to testify in support of the expansion of the franchise area.

23 Q. Have you prepared testimony before this Commission?

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

5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to describe the financial impact of the expansion
7 of the franchise area.

8 Q. What is the nature of the assets being acquired?

9 A. The assets being acquired are an easement, pump station, pumping equipment,
10 mains, meters and miscellaneous plant.

11 Q. What is the purchase price of the assets being acquired?

12 A. The purchase price is \$120,000.

13 Q. Are there any other costs being incurred?

14 A. Yes, there are costs being incurred to extend the T&D main to the new franchise
15 area and to obtain PUC approval of the franchise expansion.

16 Q. How much of the costs will be financed?

17 A. The purchase price for the assets amounting to \$120,000 will be paid for by
18 Tisdale Trailer park and reflected as a contribution in aid of construction. The
19 additional costs to extend the T&D main and to obtain PUC approval will be paid
20 out of internal cash.

21 Q. Has the project been approved by the New Hampshire Department of
22 Environmental Services (DES)?

1 A. The emergency service and a permanent connection has been authorized by the
2 NHDES. (see Exhibit 10)

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

4 A. The Company proposes to recover its investment through the normal course of
5 business, and the application of the recently PUC approved consolidated rates.

6 Q. What are the current rates?

7 A. The Company proposes to maintain the customer charges per meter size and
8 utilize the consumption charge from \$6.11 per ccf.

9 Q. Has the Company determined the impact of the additions to plant on the
10 Company's financial statements?

11 A. Yes. I have prepared proforma financial statements identified as SPS 1-1 – 7.

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

14 A. Yes. Generally, column (a) identifies the line number on the schedule. Column
15 (b) identifies the PUC account title and account number. Column (c) identifies
16 the actual December 31, 2007 account balances. Column (d) identifies the
17 adjustments. Column (e) reflects the adjusted December 31, 2007 account
18 balances for the 2019 expansion of the franchise area.

19 Q. Please explain the adjustments related to 2019 franchise expansion.

20 A. Schedule SPS 1-1 contains 3 adjustments.

21 The first adjustment to Utility Plant for \$136,500 represents the total additions to
22 plant in service for the costs associated with the acquisition of assets and HAWC
23 incurred costs. There are no retirements associated with the new plant. The

1 second adjustment to Accumulated Depreciation for \$2,333 represents a half-year
2 depreciation on the \$136,500 of plant additions. The third adjustment to Cash for
3 (\$25,512) is the net of the cash received from the 58 new customers less payment
4 for the Company incurred plant costs, the increase in O&M expenses, state and
5 local property taxes and the estimated federal income tax on the \$120,000 of
6 CIAC. While the Company would prefer that the net cash be positive, the
7 Company has cash to cover the negative cash impact.

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

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

11 Q. Please explain the adjustments related to the 2019 franchise expansion.

12 A. Schedule SPS 1-2 contains 3 adjustments. The first adjustment to Retained
13 Earnings for (\$9,245) represents the net income impact of the various income
14 statement transactions (i.e., revenue, O&M expenses, depreciation expenses,
15 amortization of CIAC and taxes. The second adjustment to Contribution in Aid of
16 Construction of \$120,000 represents the amount of contributed plant. The third
17 adjustment to A/A of CIAC for \$2,100 represents a half-year amortization of
18 CIAC on the \$120,000 of contributed plant additions.

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

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

21 Q. Please explain the adjustments related to the 2019 franchise expansion.

22 A. There are 6 adjustments to the Statement of Income. The first adjustment to
23 Operating Revenue of \$22,100 represents the anticipated revenue from the 58 new

1 customers. The second adjustment to O&M expenses of \$4,400 is for the
2 anticipated increase in expenses associated with purchased power, treatment,
3 labor, maintenance, etc. The third adjustment to Depreciation Expense of \$2,333
4 represents the increase due to a half-year depreciation on the additions to plant.
5 The fourth adjustment to Amortization of CIAC of (\$2,100) represents the
6 increase due to a half-year amortization of CIAC on the contributed portion of the
7 additions to plant. The fifth adjustment to Taxes other than Income of \$1,512
8 represents the increase in state and local property taxes. The sixth adjustment to
9 Income Taxes of \$25,200 represents increase in federal income tax associated
10 with the CIAC on the \$120,000 of contributed plant additions.

11 Q. Would you please explain Schedule SPS 3, entitled Balance Sheet, Equity Capital
12 and Liabilities?

13 A. The actual 2017 Current Year End Balance is also reflected on the Balance Sheet
14 (see SPS 1-2). The related capitalization ratios are shown on the bottom half of
15 the Schedule. The Company's debt to equity position is weighted towards debt
16 due to its negative retained earnings. The Company's owner has made significant
17 equity contribution in recent years. The Company expects that the ratio will
18 improve with the recently approved rate increase in DW 17-118. There is only a
19 minor change in the ratios as a result of the franchise expansion.

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

21 A. Schedule SPS-4 identifies the specific journal entries used to develop the
22 proforma financial statements. The significant journal entries are the recording of
23 (1) the additions to plant and the related CIAC and internal cash, (2) the

1 anticipated revenue from the 58 new customers, and (3) the payment of the
2 federal income tax associated with \$120,000 of contributed plant.

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

4 A. SPS-5 shows the plant by PUC account, the amount, the depreciation expense and
5 accumulated depreciation. Also, it shows the estimated assessed value and the
6 related state and local property taxes. In addition, it shows the CIAC by PUC
7 account, the amount, the amortization of CIAC and accumulated amortization of
8 CIAC.

9 Q. Would you please explain SPS-6?

10 A. SPS-6 shows the source and use of the funds. The source is the contributed plant
11 and internal cash. The use is the plant costs.

12 Q. Would you please explain SPS-7?

13 A. SPS-7 shows the anticipated franchise costs to pursue NHPUC approvals.

14 Q. Why should the Commission approve the franchise expansion?

15 A. The Commission should approve the franchise expansion because it is in the best
16 interest of the Company and the new customers. The acquisition of the assets and
17 the connection to the Lancaster Farms water system will enable the Company to
18 provide safe and reliable water to Tisdale Trailer Park.

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

21 A. No.

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

1 A. The Company respectfully requests that the PUC approve to expand the franchise
2 area to the Tisdale Trailer park in Salem, NH, the contract to provide water to the
3 trailer park, the acquisition of the contributed assets and the application of the
4 recently PUC approved consolidated rates.

5 Q. Does this conclude your testimony?

6 A. Yes.