

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

5 DW 19-

6 PETITION FOR APPROVAL TO ACCEPT DRINKING WATER  
7 GROUNDWATER TRUST FUND GRANT FUNDS AND FINANCING; AND  
8 BANK FINANCING

9 PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR

10 Q. What is your name and business address?

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

13 Q. Who is your employer?

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

15 Q. What are your responsibilities in this case?

16 A. My responsibilities are to support Hampstead Area Water Company, Inc's  
17 (Company or HAWC) effort to obtain Public Utilities Commission (PUC)  
18 approval to accept a grant, to borrow funds from the Drinking Water and  
19 Groundwater Trust Fund (DWGTF) to pay for the CIAC Tax on the grant funds  
20 and to borrow funds from bank to pay portion of Merrimack Source Development  
21 Charge (MSDC). My responsibilities include preparing the financial exhibits and  
22 prefiled direct testimony which describes the financings. In addition, I am  
23 prepared to testify in support of financings.

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 borrow funds  
8 from the State of New Hampshire's DWGTF, to borrow funds from bank and to  
9 obtain a grant allowing the Company to construct appurtenant infrastructure and  
10 improvements to its core water system in order to connect to the Southern New  
11 Hampshire Regional Water Interconnection Project (Project). The Project will  
12 provide water from Manchester through Derry and Salem to the HAWC core  
13 system and ultimately to Plaistow.

14 Q. Is the Project being completed in phases?

15 A. Yes, this Petition relates to Phase I of the Project.

16 Q. When does the Company anticipate beginning design work for Phase I?

17 A. The Company has already begun design work and anticipates that will continue  
18 through the fall 2019.

19 Q. When does the Company anticipate beginning and completing the construction of  
20 infrastructure for Phase I?

21 A. The Company has begun preliminary work. The Company anticipates  
22 completing the construction in mid-2020.

- 1 Q. What are the costs of the Phase I construction, appurtenant infrastructure and  
2 engineering?
- 3 A. The estimated costs are \$3,283,750.00.
- 4 Q. How much of the costs will be financed?
- 5 A. None.
- 6 Q. Then what is the Company financing?
- 7 A. The majority of financing is to pay federal and state CIAC tax that totals  
8 \$894,494. The remaining \$392,500 is to finance part of the Company's MSDC  
9 for the Project.
- 10 Q. Is the Company paying for any of the MSDC fee?
- 11 A. Yes, the Company, through its sole shareholder's commitment to infuse capital  
12 over the next few years, will pay the remaining \$500,000 MSDC.
- 13 Q. What is the source of financings?
- 14 A. The DWGTF and a yet to be determined bank.
- 15 Q. Has the project been approved by the New Hampshire Department of  
16 Environmental Services (DES)?
- 17 A. Yes.
- 18 Q. Are the funds available from the DWGTF?
- 19 A. Yes.
- 20 Q. What are the terms and conditions of the DWGTF loan?
- 21 A. The length of the loan is 25 years. The interest rate is 2.97%.
- 22 Q. Did the Company consider any other financing options?
- 23 A. No.

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

2 A. The Company will seek to recover its investment through an increase in rates to  
3 its customers via a step increase when the Company files its next rate case.

4 Q. Will the DWGTF approve the loan without an increase in rates?

5 A. Yes, it already approved the loan for the Company.

6 Q. What is the current consumption rate?

7 A. The current consumption rate is \$6.11 per 100 cubic feet of water supplied. In  
8 DW 18-138, the Commission approved the Company's proposed financing of the  
9 Atkinson Tank. As part of that financing, the Company projected that the current  
10 consumption rate of \$6.11 will increase to \$6.51 per 100 cubic feet of water.

11 Q. Has the Company determined the impact of the financing and the additions to  
12 plant on the Company's financial statements?

13 A. Yes. I have prepared proforma financial statements identified as SPS 1-12.  
14 Before I provide a brief explanation of the proforma financial statements, please  
15 note the major assumptions including participation in the Project, the amount of  
16 the grant and its treatment as CIAC, the financings including a contribution of  
17 additional paid in capital by the owner, the construction and related costs and the  
18 projected revenue requirement and related rates.

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

21 A. Yes. Generally, column (a) identifies the line number on the schedule. Column  
22 (b) identifies the PUC account title and account number. Column (c) identifies  
23 the actual December 31, 2018 account balances. Column (d) identifies the DW

1 18-138 adjustments. Column (e) reflects the adjusted December 31, 2018 account  
2 balances for the 2018 Atkinson Tank Financing and additions to plant. Column  
3 (f) identifies the additions to plant, CIAC, APIC and LTD associated with the  
4 Project. Column (g) reflects the adjusted December 31, 2018 account balances  
5 for both the 2018 Atkinson Tank Financing and the Project Financings.

6 Q. Please explain the adjustments related to 2018 DGTF financing and step increase.

7 A. Schedule SPS 1-1 contains 4 adjustments.

8 The first adjustment to Utility Plant for \$5,070,744 represents the total  
9 additions to plant in service for the costs of the core system improvements and the  
10 appurtenant infrastructure to accept water originating from Manchester. There are  
11 no retirements associated with the new plant presently reflected.

12 The second adjustment to Accumulated Depreciation for \$113,749  
13 represents a half-year depreciation on the \$5,070,744 of plant additions.

14 The third adjustment to Cash for \$70,265 is the net of the cash received  
15 from the DWGTF and bank financings and the anticipated revenue from the  
16 proposed step increase less payment for the new plant, the repayment of the new  
17 loans, the payment of net increase in operating expenses and the increased  
18 property taxes.

19 The fourth adjustment to Miscellaneous Deferred Debits for \$14,585 is the  
20 net of the costs incurred in order to pursue PUC approval of the financings and  
21 the amortization of the DWGTF financing costs.

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

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

2 Q. Please explain the adjustments related to the 2018 DWGTF financing and step  
3 increase.

4 A. Schedule SPS 1-2 contains 5 adjustments.

5 The first adjustment to Other Paid In Capital of \$500,000 represents the  
6 additional paid in capital contributed by the owner.

7 The second adjustment to Retained Earnings for \$85,148 represents the  
8 net income impact of the various income statement transactions (i.e., revenue,  
9 O&M expenses, depreciation expenses, amortization of CIAC, property taxes and  
10 interest expense).

11 The third adjustment to Other Long Term Debt for \$1,250,770 represents  
12 the net amount of the borrowings of \$1,286,994 and the first year repayment on  
13 the loans of \$36,224.

14 The fourth adjustment to CIAC of \$3,283,750 represent the State grant  
15 funds being used to construct the Project.

16 The fifth adjustment to Accumulated Amortization of CIAC of \$77,823  
17 represents the ½ year amortization of CIAC on the contributed plant.

18 Please note that while the grant funds are treated as income for tax  
19 purposes, such funds are being treated as CIAC for book and ratemaking  
20 purposes.

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

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

1 Q. Please explain the adjustments related to the 2018 DWGTF financing and step  
2 increase.

3 A. There are 7 adjustments to the Statement of Income.

4 The first adjustment to Operating Revenue of \$415,967 represents the  
5 anticipated revenue requirement associated with the step increase. The  
6 anticipated revenue requirement allows the Company to recover its investment  
7 and earn a return on the unrecovered investment.

8 The second adjustment to Operating and Maintenance Expenses of  
9 \$200,000 represents the net of purchased water of \$372,000 and the decrease in  
10 expenses of \$172,000 from turning off some wells.

11 The third adjustment to Depreciation Expense of \$ \$113,749 represents  
12 the increase due to a half-year depreciation on the additions to plant.

13 The fourth adjustment to Amortization of CIAC of (\$77,823) represents  
14 the increase due to a half-year amortization of CIAC on the contributed portion of  
15 the additions to plant.

16 The fifth adjustment to Taxes other than Income of \$48,884 represents the  
17 increase in state and local property taxes.

18 Please note that HAWC has yet to determine the federal income and  
19 business tax impacts and deferred tax impacts of timing difference between the  
20 NH grant being recorded as income for tax purposes and CIAC for book purposes  
21 and the book and tax depreciation.

22 The sixth adjustment to Interest Expense of \$45,594 represents the first  
23 year interest expense on the new debt

1                   The seventh adjustment to Amortization of Debt Expense of \$415  
2 represents the first year amortization of the financing.

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

4 A.    The actual 2018 Current Year End Balance is also reflected on the Balance Sheet  
5 (see SPS 1-2). The related capitalization ratios are shown on the bottom half of  
6 the Schedule. The Company's debt to equity position is weighted towards debt  
7 due to its negative equity position and the increasing amount of debt. The  
8 Company's owner has made significant equity contribution in recent years  
9 including \$500,000 in 2019. The Company expects that the ratios will improve  
10 with the recently approved rate increase in DW 17-118 and ultimately the rate  
11 increases need to support HAWC investment in the Atkinson Tank and the  
12 Project.

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

14 A.    Schedule SPS-4 identifies the specific journal entries used to develop the  
15 proforma financial statements. The significant journal entries are the recording of  
16 (1) the receipt of the grant, the borrowing of funds and the contribution of APIC,  
17 (2) the utilization of the grant / funds for the additions to plant, (3) the repayment  
18 of the principal and interest on the loan, and (4) the anticipated revenue  
19 requirement via the step increase, offset by increases in expenses.

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

21 A.    SPS-5 shows the calculation of the revenue requirement. The sum of the  
22 additions to plant less the related accumulated depreciation less the CIAC plus the  
23 amortization of the CIAC plus cash working capital result in a rate base of



1           \$1,775,728. The Company is applying the cost of capital of 5.363% to determine  
2           the additional net operating income required. In addition, the Company adds the  
3           net increase in O&M expenses, a full year depreciation, a full year amortization of  
4           CIAC and property taxes to the additional net operating income required in order  
5           to determine the total additional revenue requirement of \$415,967.

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

7    A.     The weighted average cost of capital schedule includes the debt financings and  
8           the additional paid in capital with the appropriate weighting and cost rates,  
9           resulting in an overall weighted average cost of capital of 5.36%.

10   Q.     Would you please explain SPS-7, the calculation of rates.

11   A.     The Company has added four columns to Attachment B, Schedule 6a of the  
12           settlement schedules approved in DW 17-118. Schedule 6a shows the calculation  
13           of rates that support the recently approved rates including the \$6.11 per ccf  
14           consumption rate. The Company has added the proposed increase in revenues  
15           associated with the recently approved financing for the Atkinson Tank and the  
16           proposed increase in revenue associated with this Project to the recently approved  
17           revenues and calculated a new consumption rate of \$ 8.19 per ccf. The Company  
18           proposes to maintain the customer charges per meter size.

19   Q.     Would you please explain SPS-8, Plant / Accumulated Depreciation /  
20           Depreciation Expense.

21   A.     SPS-8 reflects the cost of the plant by plant account, the CIAC gross up at a rate  
22           of 27.24%, the total costs, the depreciation rate, the depreciation expense, the ½  
23           year accumulated depreciation and the net plant. Overall, HAWC is adding

- 1           \$5,070,744 to plant. Please note that HAWC's payments of the MSDC fees are  
2           being treated as "wells" and being recovered over the 30 years.
- 3    Q.    Would you please explain SPS-9, CIAC / Accumulated Amortization of CIAC /  
4           Amortization of CIAC.
- 5    A.    SPS-9 reflects the cost of the CIAC by plant account, the amortization rate, the  
6           amortization of CIAC, the ½ year accumulated amortization of CIAC and the net  
7           CIAC. Overall, HAWC is adding \$3,283,750 to CIAC. As noted earlier, the full  
8           amount of the NH grant is being treated as CIAC for book and ratemaking  
9           purposes.
- 10   Q.    Would you please explain SPS-10, Property Taxes.
- 11   A.    SPS-10 reflects the net plant, the thousand dollars of assessed value, the NHDRA  
12           tax value as a percentage of net book value, the combined state and local property  
13           tax rate and the projected increase in property taxes of \$48,884.
- 14   Q.    Would you please explain SPS-11, Source and Use of Funds?
- 15   A.    SPS-11 shows the source and use of the funds. The source is the State of NH for  
16           both the grant and a loan, the yet to be determined bank and the owner's  
17           additional paid in capital. The use is the construction of the SNHRWIP, the tax  
18           on the State of NH CIAC and the MSDC Fees.
- 19   Q.    Would you please explain Schedule SPS 12?
- 20   A.    SPS-12 shows the anticipated financing costs to pursue NHPUC approvals.
- 21   Q.    How does the Company propose to repay the new debt?

1 A. The Company proposes to increase rates via a step increase as part of a planned  
2 rate case upon completion of the project. The Company's ability to repay the  
3 DWGTF and bank loans is dependent on NHPUC approving an increase in rates.

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

6 A. No.

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

8 A. The Company respectfully requests that the PUC approve HAWC's acceptance of  
9 \$3,283,750 of DWGTF grant money, approve the 2019 DWGTF financing of  
10 \$894,494, under the terms stated previously and approve the yet to be determined  
11 bank financing of \$392,500.

12 Q. Does this conclude your testimony?

13 A. Yes.

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