Exhibit 2

Atkinson Area Waste Water Recycling Company

before the

New Hampshire Public Utilities Commission

DW 20-071

Direct Testimony of Stephen P. St. Cyr

Q. Please state your name and address.

A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.

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

A. I am presently employed by St. Cyr & Associates, which primarily provides accounting, management, regulatory and tax services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water and sewer utilities among its clientele. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission ("PUC"). Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland (but not certified in NH due to different certificate requirements). I obtained a master level Certificate in Taxation from NH College (now Southern Maine University).

Q. Is St. Cyr & Associates presently providing services to Atkinson Area Waste Water Recycling Company ("AAWWR" or "Company")?

A. Yes. St. Cyr & Associates assists the Company in its year end closing and preparation of financial statement. St. Cyr & Associates also assists the Company in various regulatory filings including expansion of its franchise, financing of construction projects and adjusting rates. It has been engaged to prepare the various rate case exhibits, supporting schedules and written testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's efforts to increase rates to its customers so as to reflect in rates its additions to plant and related CIAC, the changes to its capital structure and costs rates and its revenue and expenses adjusted for projected changes.

Q. Please provide an overview of the rate filing.

A. It has been more than 10 years since its last rate case (DW 07-131). At that time, and still today, AAWWR has only 1 commercial customer, the Atkinson Resort and Country Club, a related party. Lewis Builders Development, Inc (Lewis), another related party and the developer, is in the process of construction 2 residential buildings, each with 32 units. In order to provide sewer service to the

2 buildings, AAWWR will have to add septic tanks, forced collection sewers, a pump station and pumping equipment. The sewer infrastructure will be contributed by Lewis. In 2019 the Company converted some of its debt to other paid in capital. For a number of years, AAWWR has had net losses. With the addition of the 2 buildings and 64 customers, both revenue and expenses need to be adjusted. The Company believes that the proposed increase in rates / revenues is fair, reasonable and manageable and allows the Company to earn a fair and reasonable rate of return on its prudently incurred investments and pay for its necessary operating expenses. The proposed increase will enable the Company to provide sewer service at good pressure at good reliability at a good price.

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

A. No.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related pages and attachments?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company with the assistance of Company personnel.

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2019.

Q. Would you summarize the schedule entitled “Computation of Revenue Deficiency for the Test Year ended December 31, 2019."

A. Yes. This schedule summarizes the supporting schedules. The actual revenue deficiency for the test period amounts to $37,897. It is based upon a 5 quarter average balance for 2019 of $95,018 as summarized in Schedule 3. The Company is utilizing a rate of return of 5.50% for the actual test year. The rate of return of 5.50%, when multiplied by the rate base of $95,018, results in an operating income requirement of $5,226. As shown on Schedule 1, the actual net operating income (loss) for the test period was ($32,671). The operating income requirement, plus the net operating income (loss), results in an operating income deficiency of $37,897. The tax effect on the operating income deficiency is $0, resulting in a revenue deficiency of $37,897.

The pro forma revenue deficiency for the test year amounts to $0. The Company made a few adjustments to its rate base, mostly related to plant and CIAC. The Company made no adjustments to the rate of return. As such, the proposed rate of return of 5.50%, when multiplied by the rate base of $99,837, results in an operating income requirement of $5,491. The Company increased its revenue by $56,443 in order to allow the Company to recover its expenses and to earn a fair and reasonable return on its investment.

Q. Would you please summarize Schedule 1, "Statement of Income," for the twelve months ended December 31, 2019?

A. The first column (column b) of Schedule 1 shows the actual operating results of the Company from January 1, 2019 through December 31, 2019. The Company has filed its 2019 NHPUC Annual Report, which further supports the rate filing. During the twelve months ended December 31, 2019, the Company operating revenues amounted to $34,173, an increase of $3,474 or 11.32%. The increase in operating revenue in 2019 was due to an increase sewer flow. In 2020, it is likely that the sewer flow will decrease due to shut down during the covid-19 pandemic and the gradual reopening. The Company had 1 commercial customer as of December 31, 2019.

The Company's operating expenses consists of operation and maintenance expenses, depreciation and amortization expenses, and taxes other than income. Total 2019 operating expenses amounted to $66,844, an increase of $14,792 or 28.42%. Operation and maintenance expenses increased $19,376, primarily due to 4th quarter 2018 charge of $7,805 for ground water monitoring. The Company made a pro forma adjustment reducing O&M expense by same amount. The increase in operating and maintenance expenses was offset by lower taxes other than income taxes. The Company's net operating income (loss) amounted to $32,671.

The Company reviewed all of its expenses in light of the projected increase in sewer flow from 64 new customers. See Schedule 1B, Proposed Annual Operating Budget. Also, see Mr. Morse's testimony for explanation the annual O&M expenses. Overall, the Company anticipates that annual O&M expenses will amount to $78,580, an increase of $37,583. In its review, the Company determined that certain revenues and expenses needed to be adjusted in order to reflect what will be considered normal and reoccurring going forward.

Q. Please explain each of the pro forma adjustments made to revenue as shown on Schedule 1, in the second column (column c) and further supported on Schedule 1A.

A. The Company made three pro forma adjustment to revenue.

<u>Operating Revenues</u>

The first pro forma adjustment to revenues amounts for $25,504 reflects the projected usage at the existing rates. The second pro forma adjustment to revenue represents the additional revenue of $56,443 needed to recover the increase in its expenses and to earn a reasonable return on its rate base. The third pro forma adjustment to revenues amounting to $72,034 is associated with the developer's contribution of plant and the related revenue generated to pay the CIAC tax.

Q. Did the Company make any pro forma adjustments to expenses?

A. Yes. The Company made a number of pro forma adjustments to expenses as follows:

Operating and Maintenance Expenses

711 Sludge Removal. The Company anticipates annual sludge removal expenses of $7,910. No such costs were incurred in the test year, resulting in a pro forma adjustment of $7,910. See Schedule 1B for further support including the components that make up the sludge removal costs.

715 Purchased Power. With the anticipated increase in sewer flow, and the anticipated increase in electric expenses, the Company anticipates purchased power expenses $16,370. The Company incurred $9,648 during the test year, resulting in a pro forma adjustment of $6,722. See Schedule 1B for further support including the components that make up the purchased power costs.

718 Chemical. The Company anticipates annual chemical expenses of $2,000. No such costs were incurred in the test year, resulting in a pro forma adjustment of $2,000. See Schedule 1B for further support.

730 Contracted Services. In 2018 the Company inadvertently did not record the 4th quarter 2018 ground water monitoring expenses of $7,805. As such, the Company is making a pro forma adjustment by the same amount reducing its 2019 test year expenses.

730 Contracted Services. The Company anticipates annual contracted services expense of $43,750. The Company incurred $20,138 during the test year, resulting in a pro forma adjustment of $23,612. See Schedule 1B for further support including the components that make up the contracted services. Also,

please note that AAWWR has a Management / Services / Rental Agreement ("Management Agreement") with HAWC and Lewis Builders. AAWWR, HAWC and Lewis Builders are related parties. The Management Agreement provides services on an as needed basis at an hourly or other rate as set forth on Schedule A. The Management Agreement also provides parts and material, labor burden, overhead expenses and billing procedures and content, See SPS Testimony Attachment 1. In addition, AAWWR has a Billing Services Agreement ("Billing Agreement") with HAWC. The Billing Agreement provides that HAWC will provide, on an ongoing basis, those billing services at the rate of $10 per customer per year. See SPS Testimony Attachment 2.

<u>730. Audit Expenses.</u> The 2019 test year has no audit expenses. In anticipation of a PUC audit, the Company projects that it will incur $4,500 of audit related expenses. The Company proposes to recover such projected expenses over 3 years, resulting in a pro forma adjustment of $1,500.

<u>755 Insurance.</u> The Company anticipates annual insurance expenses of $6,300. No such costs were incurred in the test year, resulting in a pro forma adjustment of $6,300. See Schedule 1B for further support.

<u>765 Regulatory Expenses.</u> The Company anticipates annual regulatory expenses of $250. The Company incurred $52 during the test year, resulting in a pro forma adjustment of $198. See Schedule 1B for further support.

<u>775 Miscellaneous Expenses.</u> The Company anticipates annual miscellaneous

expenses of $2,000. The Company incurred $3,355 during the test year, resulting in a pro forma adjustment of ($1,355). See Schedule 1B for further support.

Overall. The sum of the pro forma adjustments to O&M expenses amounts to $39,082.

Depreciation Expenses

In order to provide sewer service to the 2 building, AAWWR will have to add septic tanks, forced collection sewers, a pump station and pumping equipment. The sewer infrastructure will be contributed by Lewis. In 2019 the Company recorded $57,226 of depreciation expenses. With the additional plant, the additional depreciation expense amounts to $6,970. This amount represents the annual depreciation on such assets. See Schedule 3B for calculation of depreciation.

Amortization of CIAC

As noted above, the sewer infrastructure will be contributed by Lewis. In 2019 the Company recorded $47,111 of amortization of CIAC. With the additional contributed plant, the additional amortization of CIAC amounts to $6,970. This amount represents the annual amortization of CIAC on such assets. See Schedule 3B for calculation of amortization of CIAC.

Taxes other than Income.

In 2019 the Company experienced a decrease in Taxes other than Income of $4,584 due to decrease in tax assessment and correction of prior year’s accrual.

With the additional plant, the Company anticipates and increase in both state and local property taxes. See Schedule 1C for calculation of the anticipated increase in property taxes. At the state level, the Company anticipates an increase of $1,403. At the local level, the Company anticipates an increase of $3,300. The sum of the two represents an anticipated increase of $4,703.

<u>Federal Income and State Business Taxes</u>

At this time, the increase in federal income and state business taxes is related to the contribution in aid of construction. See calculation of the CIAC tax on Schedule 3B.

The Company made no other pro forma adjustments to expenses. The total pro forma adjustments to expenses amount to $115,819.

Q. Does column d of Schedule 1 represent the sum of the actual test year amounts (column b) plus the pro forma adjustments (column c)?

A. Yes, it does.

Q. Does column e and f represent the revenue and expenses for the twelve months ended <u>December 31, 2018 and 2017, respectively?</u>

A. Yes, it does.

Q. Would you please explain Schedule 2 entitled “Balance Sheet”?

A. Yes. This schedule shows the year end balances reflected on the balance sheets of the Company for 2019, 2018 and 2017.

Utility Plant consists of sewer structures, pumping equipment, treatment and disposal equipment and sewer mains. There has been no change in utility plant during 2017 – 2019. The plant continues to be depreciated. Miscellaneous deferred debits consist of deferred rate case expenses and unamortized debt expense.

The Company's Equity Capital consists of $2,000 of common stock, $159,200 of other paid in capital, and retained earnings of ($180,856). As previously mentioned, in 2019 the Company converted some of its debt to other paid in capital. For a number of years, AAWWR has had net losses. The Company continues to carry $128,000 of debt owed to Atkinson Farm, Inc. The Company has net contribution in aid of construction of $671,093, representing a substantial contribution of the plant. The Company and its customers continue to benefit from CIAC, primarily from Lewis Builders.

Q. Would you please explain Schedule 3 entitled "Rate Base"?

A. Columns (b) - (f) show the actual balances of the rate base items as per the Company's quarterly financial statements. Column (g) shows the actual 5 quarter average balances, except for cash working capital, which reflects the cash working capital for 2019. Column (h) shows the 2019 pro forma adjustments. Column (i) shows the pro forma 2019 balances.

The rate base consists of Utility Plant, less Accumulated Depreciation, Contributions in Aid of Construction and Accumulated Amortization of CIAC plus Cash Working Capital. The actual 5 quarter average rate base amounts to $95,018. The Company made 5 adjustments to rate base. 4 of 5 adjustments pertain to the contributed plant and the related depreciation and amortization. The fifth adjustment relates to cash working capital and the related increase in O&M expenses. The computation of working capital is shown on schedule 3C. The specific adjustments are shown on Schedule 3A. As you can see, the addition to plant is offset by the related CIAC and the addition to accumulated depreciation is offset by the related amortization of CIAC. The additions to plant by plant account and the related CIAC, the estimated lives, annual depreciation and ½ year accumulated amounts are shown on Schedule 3B. The calculation of CIAC tax is also shown on Schedule 3B.

Q. Would you please explain Schedule 4 entitled “Rate of Return Information”?

A. Since AAWWR’s equity capital is negative, AAWWR is utilizing the long-term debt rate as the rate of return. There are no adjustments to the capital structure and cost rates. Schedule 4 shows the 2019 actual and pro forma capital structures and the capital structures for 2018 and 2017. It also shows the related capital structure ratios.

Q. Please explain the Report of Proposed Rate Changes (including the step increase).

A. The Report (“Report”) of Proposed Rate Changes shows the two rate classes, the effect of the revenue change, the number of customer including the new 64 residential customers, the authorized present revenue, the proposed revenue, the proposed change amount and percentage. The proposed change amount is $56,443 or 94.58%. As shown on the Report, The Company anticipates 1,958,000 and 2,336,000 gallons of sewer flow from commercial and residential ratepayers, respectively. 2,336,000 gallons represents approximately 54% of the total sewer flow. As such, the rates are designed for the Company to receive approximated 54% of the revenues from residential ratepayers. The Company has increased both the base sewer rates and consumption rates. The base sewer rates are still relatively low. The average residential customer will receive an annual increase of $581.27, resulting in an average annual bill of $979.77.

Q. Is the Company proposing to change the rate design?

A. No. The Company has applied the proposed rate increase to both the sewer base rates and the consumption rate.

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

A. Yes, the Company has engaged the services of Stephen P. St. Cyr & Assoc. The Company has agreed to an hourly fee of $140.00 (plus out of pocket costs) for work performed in preparation of the rate filing and pursuit of the rate increase during the rate proceeding. The Company will also utilize the services, i.e., management, legal, accounting, engineering, etc., of its affiliate, Lewis Builders Development, Inc., in the preparation of the rate filing and throughout the rate proceeding. The Company will make every effort to minimize its rate case expenses.

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

A. In addition to the normal adjustments to the Rate Schedule –GM in the Company's tariff, the Company has added language to the tariff related to the contribution of cash, land, plant, equipment, etc. The language will allow the Company to charge the contributing party for Tax generated from Contributions In Aid of Construction (CIAC) made to the Company. The language is consistent with the language recently approved by the PUC for the HAWC tariff in DW 19-136. The Company also made other minor changes to its tariff.

Q. Would you please summarize what the Company is requesting in this docket?

A. Yes, the Company is requesting a permanent revenue increase of $56,443, effective December 1, 2020. The permanent revenue increase of $56,443 enables the Company to earn a 5.50% rate of return on its investment, reflected in a pro forma rate base of $99,837. The average, annual residential customer's bill will increase from $398.50 to $979.77, an increase of $581.27. The Company also requests revisions to its tariff be approved to allow it to charge contributing parties for the tax generated by CIAC it makes to the Company.

Q. Does this conclude your testimony?

A. Yes.