

DW 20-112

Abenaki Water Company

Written Direct Testimony of

Stephen P. St. Cyr

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6

7

Direct Testimony of Stephen P. St. Cyr in DW 20-112

8

9 Q. Please state your name and address.

10

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

13

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

16

17 A. I am presently employed by St. Cyr & Associates, which provides accounting,
18 tax, management and regulatory services. St. Cyr & Associates was established
19 in 1993. The Company devotes a significant portion of the practice to serving
20 utilities. The Company has a number of regulated water utilities among its
21 clientele. I have prepared and presented a number of rate case filings before the
22 New Hampshire Public Utilities Commission. Prior to establishing St. Cyr &
23 Associates, I worked in the utility industry for 16 years, holding various
24 managerial accounting and regulatory positions. I have a Business
25 Administration degree with a concentration in accounting from Northeastern
26 University in Boston, Ma. I obtained my CPA certificate in Maryland, however,
27 I'm not currently licensed in NH due to different licensing requirements. I have a
28 master level Certificate in Taxation from New Hampshire College (now Southern
29 New Hampshire University).

30

31 Q. Is St. Cyr & Associates presently providing services to Abenaki Water Company
32 ("AWC" or "Company")?

33

34 A. Yes. St. Cyr & Associates prepared the various exhibits and supporting schedules
35 as well as the written testimony and other rate case filing requirements. Also, St.
36 Cyr & Associates prepare both recent financing applications (DW 20-044 and
37 DW 20-088). In addition, St. Cyr & Associates prepares Abenaki's PUC Annual
38 Reports.

39

40 Q. Are you familiar with the pending rate application of the various AWC water and
41 sewer systems and with the various exhibits submitted as Schedules 1 through 4
42 inclusive, with related pages and attachments for each of the water systems, the
43 sewer system and the combined water system?

44

45 A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of
46 the Company.

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6
7 Q. What is the test year that AWC is using in this filing?

8
9 A. AWC is utilizing the twelve months ended December 31, 2019 for the Lakeland
10 (“LL”) Water and White Rock (“WR”) and the 12 months ended 4/30/20 for
11 Tioga Gilford Village (“TGV”) and Tioga Belmont (“TB”). AWC is using the 12
12 months ended 4/30/20 for TGV and TB because there were only 8 months of
13 actual data in the 2019 test year. AWC is also is utilizing the twelve months
14 ended December 31, 2019 for the Lakeland (“LL”) Sewer.

15
16 Q. Before you explain the schedules, please provide a brief overview of AWC.

17
18 A. AWC, a wholly owned subsidiary of New England Service Company (“NESC”),
19 is a public utility distributing water to approximately 725 customers in Carroll,
20 Belmont, Bow and Gilford, NH. It also provides sewer to 158 customers in
21 Belmont, NH. As a public utility operating in New Hampshire, the Company
22 functions under the rules and regulations prescribed by the New Hampshire
23 Public Utilities Commission (“NHPUC”).

24
25 Q. Is the rate application applicable to all of AWC’s systems?

26
27 A. No, the rate application excludes the Rosebrook water system.

28
29 Q. Are there specific things prompting the rate filing?

30
31 A. Yes. First of all, the WR, TGV and TB all experience net losses during the test
32 year. As such, part of the rate application is simply to allow those systems to
33 recover its costs and earn its PUC approved rates of return. Second, each of the
34 water systems incurred normal replacement of plant and/or new plant during the
35 test year. Both TGV and TB made significant investments in the purchased and
36 installed meters. Both TGV and TB are also seeking recovery of its due diligence
37 costs incurred during its purchase by the AWC and the approval by the NHPUC.
38 Third, each of the water systems has also incurred normal replacement of plant
39 and/or new plant in 2020. Both WR and TB have financing requests before the
40 NHPUC in DW 20-044 and DW 20-088 to make significant improvements to the
41 systems. Fourth, LL Water, WR & TB systems has incurred costs i.e., water
42 boiling, tax rate effect change, water outages, tank inspection, etc. that have been
43 deferred. Those systems are now seeking recovery of such costs over various
44 periods of time. Lakeland and White Rock’s last rate increase was approved in
45 DW 15-199, based on a proformed 2014 test year. TGV and TB’s last rate
46 increase was approved in DW 10-217, based on a proformed test year for the 12

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7 months ended 10/31/09. With the proposed increase in rates and revenues, AWC
8 should be able to eliminate the net loss, recover its investments, earn a fair and
9 reasonable rate of return on its investment and continue to provide service to its
10 customers at fair and reasonable rates.

11
12 Q. Is there anything else prior to summarizing the schedules?

13
14 A. Yes. AWC seeks Commission approval of a year-end rate base. While the
15 Company has always believed that a year-end rate base is appropriate, that is
16 particularly true for WR, TGV and TB due to the investments made during the
17 test year. All of these investments are “used and useful” and providing service to
18 customers.

19
20 TGV and TB are also seeking recovery of its due diligence costs. These are the
21 costs that were incurred in the process of purchasing the water system and gaining
22 PUC approval (DW 18-108). The recovery of these costs consistent with the
23 PUC’s approval of similar due diligence costs incurred when Abenaki purchased
24 Lakeland, White Rock and Rosebrook. AWC is proposing to amortize the due
25 diligence costs over a 15 year period.

26
27 In addition, AWC is proposing consolidated rates for LL Water, WR, TGV & TB.
28 Unfortunately, any investment of a significant amount causes a significant rate
29 increase, which is particularly hard on water systems with a small number of
30 customers. Given the relatively small number of customers in each of these
31 systems, it’s in the customers and the Company’s best interest to be able to spread
32 such investments over a larger number of customers. See Mr. LaChance’s
33 testimony for further justification.

34
35 Finally, AWC is using a 10.44% return on equity. AWC is utilizing the
36 Commission Staff determined cost of common equity of 9.69% plus .50% for rate
37 case expense savings adder plus .25% exemplary performance adder. AWC
38 believes that it could justify a .50% exemplary performance adder but choose to
39 seek only .25% knowing the amount of the rate increase(s). The justification for
40 exemplary performance is provided as part of the Total Company Schedules.

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6
7 Q. Would you please summarize the schedules?

8
9 A. Yes. The schedules consist of AWC 2019, 2018 and 2017 balance sheets and
10 income statements, the 2019 statement of income by system, the 2019, 2018 and
11 2017 capital structures, the 2019 actual and pro forma long term debt and the rate
12 of return information (collectively referred to as the Total Company Schedules).
13 The Total Company Schedules are followed by a set of rate schedules for the LL
14 Sewer entity, the LL Water, WR, TGV and TB water systems, followed by the
15 combined water systems schedules.

16
17 Q. Please describe the **Total Company Schedules**.

18
19 A. The Total Company Schedules consist of the 2019, 2018 and 2017 balance sheets
20 and income statements, the 2019 statement of income by system, the 2019, 2018
21 and 2017 capital structures, the 2019 actual and pro forma long term debt and the
22 rate of return information

23
24 Overall, Schedule 1a and 1b shows the Company's balance sheet has increased
25 \$487,621 since 2017, including an increase in utility plant of \$599,472. The
26 Company's cash position has been strained, resulting in a significant A/P to
27 Associated Co., which was subsequently converted to additional paid in capital.
28 Company has also experienced increases in preliminary survey and investigation
29 charges of \$102,041 and miscellaneous deferred debits of \$157,681. In addition,
30 the Company has an increase in additional paid in capital of \$474,730 including
31 the previously mentioned conversion of A/P to Associated Co. Its long-term debt
32 decreased in 2018 and increased in 2019.

33
34 Overall, in 2019, Schedule 2a shows the Company's net income amounted to
35 \$29,063. The Company's operating revenues decreased in 2018 and increased in
36 2019, due to an increase in rates in its Rosebrook water system and 8 months of
37 revenue from newly acquired TGV and TB water systems. The Company's
38 operating expenses decreased in 2018 and increased in 2019. The increase in
39 2019 is in part due to O&M expenses associated with newly acquired TGV and
40 TB water system.

41
42 A closer look at the Company's 2019 net income as shown on Schedule 2b
43 reveals that Rosebrook and Lakeland contributed to the overall net income and
44 WR, TGV and TB did not. WR, TGV & TB experienced net losses amounting to
45 \$19,532, \$13,067 and \$19,975, respectively.

46

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7 As such, part of the proposed increase in rates / revenues is to simply allow those
8 systems to cover their expenses and earn their presently PUC approved rate of
9 return.

10
11 Schedule 3 shows the 2019, 2018 & 2017 capital structures. As indicated earlier,
12 the Company has an increase in additional paid in capital of \$474,730 including
13 the previously mentioned conversion of A/P to Associated Co. Its long-term debt
14 decreased in 2018 and increased in 2019.

15
16 Schedule 4 shows the Company's long term debt and interest expense for both
17 actual and pro forma 2019. The actual cost of debt is 4.08%. The pro forma long
18 term debt includes \$45,000 of NH DWGTF financing for TB tank and gate valves
19 (subject to PUC approval in DW 20-044) and \$125,000 of NH DWSRF financing
20 for WR improvements (subject to PUC approval in DW 20-088). The interest
21 rates on both pending loans are very attractive. The pro forma cost of debt is
22 3.96%.

23
24 Schedule 5 shows the rate of return information including overall rate of return of
25 7.81% and 7.95% for actual and pro forma, respectively. It also shows the capital
26 structures and capital structures percentage for 2019, 2018 and 2017. The
27 Company is utilizing the PUC Staff provided baseline ROE of 9.69%, plus rate
28 case expense savings added of .50%, plus a capital structure adder of .00%, plus
29 an exemplary performance adder of .25%. Please note that the Company is just
30 outside an "acceptable" capital structure with equity of 56 to 60 percent due in
31 part to the conversion of A/P to Associated Co. to additional paid in capital.

32
33 With respect to "exemplary performance," AWC utilizes a NHDES asset
34 management program. The Company performs regularly scheduled leak detection
35 across each of the Company systems. Once identified, the main/service is then
36 scheduled for repair/replacement. The Company also banned non-essential
37 outdoor water usage in the WR and TB. All purchases must be approved via a PO
38 by an officer of the Company. Non-recurring charges in excess of \$500 require
39 multiple vendor prices. The Company's emergency excavator is under
40 agreement, with specified pricing, that the Company has pre-negotiated to ensure
41 competitive pricing. The Company is now evaluating the new arsenic MCL (5
42 ppm) at WR. Further work has yet to be done, but any improvements or
43 techniques necessary will be determined. At TGV, the Company is addressing
44 Radium 226 & 228 through a series of sample testing. The forecast is either
45 replacing the present filtration media or blending of source water.

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7 The Company has recently just invested in a Job Order system that tracks
8 customer visits to ensure the concern has been completed satisfactorily to
9 management. These job Orders are archived into the customer profiles for
10 historic use. Recently, the Company rolled out a state of the art emergency alert
11 system that notifies customers via email, phone and text of emergencies or
12 planned work in the systems. The Company accepts credit card and payment via
13 its web site, it recently has added Apple payment methods as well. All of these
14 measures have been taken in part because the Company believes that they better
15 serve customers. While the Company believes that such measures merit .50 basis
16 points being added to the return on equity, it recognized that given the size of the
17 rate increases, it is willing to accept .25 basis points.

18
19 Q. Is there anything else that you would like to address related to the Total Company
20 Schedules?

21
22 A. No.

23
24 Q. Please begin by describing the **LL Sewer Schedules**.

25
26 A. The schedule entitled "Computation of Revenue Deficiency for the Test Year
27 ended December 31, 2019," summarizes the supporting schedules. The actual
28 revenue (deficiency) surplus for LL Sewer for the test year amounts to (\$2,121).
29 It is based upon an actual test year with a 5 quarter average rate base of \$49,752
30 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual
31 test year. The rate of return of 7.81%, when multiplied by the rate base of
32 \$49,752, results in an operating income requirement of \$3,886. As shown on
33 Schedule 1, the actual net operating income (loss) for LL Sewer for the test year
34 was \$1,765. The operating income required, less the net operating income (loss),
35 results in an operating income (deficiency) surplus before taxes of (\$2,121). LL
36 Sewer did not calculate the tax effect of the revenue deficiency, resulting in a
37 revenue (deficiency) surplus for LL Sewer of (\$2,121).

38
39 The pro forma revenue deficiency for LL Sewer for the test year amounts to zero.
40 It is based upon a pro formed test year rate base of \$51,375, as summarized in
41 Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro
42 formed test year. The pro formed rate of return of 7.95% when multiplied by the
43 rate base of \$51,375, results in an operating net income requirement of \$4,084.

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7 As shown on Schedule 1, the pro formed net operating income for LL Sewer for
8 the test year is \$4,085. The operating income required, less the net operating
9 income, results in a deficiency of zero. The tax effect of the deficiency is zero,
10 resulting in a revenue deficiency for LL Sewer of zero.

11
12 Schedule 1 reflects LL Sewer’s Statement of Income. Column b shows the actual
13 2019 year end balances. Column c shows pro forma adjustments for known and
14 measurable changes to test year revenues and expenses.. Column d shows the pro
15 forma 2019 year end balances. The 2018 and 2017 Statements of Income are not
16 available since 2019 was the first year in which AWC separated the water and
17 sewer. During the 2019 test year, LL Sewer net income (loss) was \$1,175.

18
19 Schedule 1A shows the pro forma adjustments to revenue and expenses. The
20 Company made 1 pro forma adjustment to operating revenues totaling \$11,068
21 and a few pro forma adjustments to operating expenses totaling \$8,764. The
22 specific pro forma adjustments are identified on the Statement of Income – Pro
23 forma Adjustments (Schedule 1A). A brief explanation is as follows:

24
25 Pro forma Adjustment to Operating Revenues

26
27 Operating Revenues – \$11,066

28
29 The Company has increased test year revenues for the proposed amount of
30 revenues necessary to cover its expenses and allow it to earn its proposed rate of
31 return.

32
33 Pro forma Adjustments to Operating Expense

34
35 Operating Expenses:

36
37 Purchased Water Treatment - \$5,035

38 In 2020 the City of Laconia increased its sewer rates from \$0.0520 to
39 \$0.0538 and per unit charge from \$12.41 to \$12.86. The resulting increase
40 amounts to \$2,689.

41 In 2021 the City of Laconia anticipates increasing its sewer rates from
42 \$0.0538 to \$0.0557 and per unit charge from \$12.86 to \$13.33. The resulting
43 increase amounts to \$2,346.

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7

Miscellaneous Pumping Expenses - \$2,206

8

In 2019 LL Sewer removed and unbound sewer pump 1. Initially, it charged such expense to miscellaneous deferred debit. Upon further review, it was determined that the expense was maintenance in nature and should have been charged to expense. As such, the pro forma adjustment transferred the expense from miscellaneous deferred debits to miscellaneous pumping expenses.

10

11

12

13

14

Lease Agreements - \$59

15

16

During the test year LL Sewer incurred \$1,573 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to \$1,632, resulting in an increase of \$59.

17

18

19

20

PUC Audit - \$500

21

22

In anticipation of a PUC audit, AWC estimated that it will incur \$7,500. The estimated costs of \$7,500 will be equally allocated among the 5 systems participating in this rate case, resulting \$1,500 costs per system. No such audit expenses are reflected in the test year. LL Sewer is proposing to recover the proposed audit expense of \$1,500 over 3 years, resulting in a test year adjustment of \$500.

23

24

25

26

27

28

29

Amortization Expenses – Other - \$594

30

2019 Tax Rate Effect Change

31

During 2018 & 2019 AWC incurred \$8,490 of costs related to Dockets IR 18-001 and DW 18-047 related to the PUC investigation to determine the rate effect of federal and state corporate tax reductions. The investigation involved AWC preparing a compliance plan along with attachments, the PUC Staff recommendation and the PUC order approving Staff's recommendation. AWC later allocated such costs to its 3 systems at the time including Lakeland. In 2019 Lakeland further allocated such costs between water and sewer. LL Sewer costs amounts to \$1,536. LL Sewer is proposing to recover the costs over 5 years, at an annual cost of \$307.

32

33

34

35

36

37

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40

41

2019 Sewer Step Rate Increase

42

43

In DW 15-199 the PUC approved a step increase for an anticipated increase in sewer rates that the City of Laconia charges LL Sewer. LL Sewer pursued the step increase in 2019 and incurred various \$1,536 costs to do so. LL Sewer is proposing to recover the costs over 5 years, at an annual cost of \$287.

44

45

46

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7

Income Taxes - \$352

8

9

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

10

11

12

The total pro forma adjustments to Operating Expenses amount to \$8,746.

13

14

15

The net of the pro forma adjustments to operating revenue of \$11,066 and the pro forma adjustments to operating expenses of \$8,746 results in a net pro forma adjustment of \$2,320. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals \$4,085. The pro forma test year net operating income of \$4,085 allows LL Sewer to cover its expenses and earn its proposed 7.95% return on its investments.

16

17

18

19

20

21

22

23 Q. Does that complete your description of the pro forma adjustments to revenues and expenses?

24

25

26 A. Yes.

27

28 Q. Please describe Schedule 2, the Balance Sheet.

28

29

30 A. See Total Company Balance Sheet.

30

31

32 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

32

33

34

35 A. Schedule 3 reflects LL Sewer Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance.

35

36

37

38

39

Schedule 3A shows the Rate Base – LL Sewer Pro forma Adjustments. Pro forma adjustments 2 & 5 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully “used and useful,” providing service to customers and no increase in customers during the test year.

40

41

42

43

44

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7

Adjustments #3 & #4 are the adjustments related to the Dockets IR 18-001 and DW 18-047 regarding the PUC investigation to determine the rate effect of federal and state corporate tax reductions and step increase costs totaling \$2,971. LL Sewer is proposing to recover both costs over 5 years, at an annual cost of \$594. The half year amortization of such costs is \$297.

10

11

12

13

Adjustment #6 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3C.

14

15

16

17

The Total Pro Forma December 31, 2019 Rate Base balance amounts to \$51,375.

18

19

Q. Would you please explain Schedule 4, Rate of Return Information?

20

21

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just LL Sewer.

22

23

24

25

Q. Please explain the Report of Proposed Rate Changes.

26

27

A. If LL Sewer's rate filing is approved as submitted, its total sewer Operating Revenues will amount to \$126,987, an increase of \$11,066.

28

29

30

Q. Is LL Sewer proposing any changes to the methodology used in calculating the rates?

31

32

33

A. No. LL Sewer is calculating the new rates in a manner consistent with its present rates.

34

35

36

Q. When is LL Sewer proposing that the new rates be effective?

37

38

A. The proposed effective date is 30 days from LL Sewer's rate filing.

39

40

Q. Is LL Sewer proposing temporary rates?

41

42

A. Yes. LL Sewer expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

43

44

45

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6
7 Q. Would you please summarize what the LL Sewer is requesting in its rate filing?

8
9 A. LL Sewer respectfully requests that the Commissioners approve an increase in
10 annual revenues of \$11,065 for permanent rates.

11
12 Q. Is there anything further that you would like to discuss?

13
14 A. No, there is nothing further to my testimony as it pertains to LL Sewer.

15
16 Q. Please begin by describing the **LL Water Schedules**.

17
18 A. The schedule entitled "Computation of Revenue Deficiency for the Test Year
19 ended December 31, 2019," summarizes the supporting schedules. The actual
20 revenue (deficiency) surplus for LL Water for the test year amounts to \$6,261. It
21 is based upon an actual test year with a 5 quarter average rate base of \$298,944 as
22 summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual
23 test year. The rate of return of 7.81%, when multiplied by the rate base of
24 \$298,944, results in an operating income requirement of \$23,347. As shown on
25 Schedule 1, the actual net operating income (loss) for LL Water for the test year
26 was \$29,608. The operating income required, less the net operating income
27 (loss), results in an operating income (deficiency) surplus before taxes of \$6,261.
28 LL Water did not calculate the tax effect of the revenue deficiency, resulting in a
29 revenue (deficiency) surplus for LL Water of \$6,261.

30
31 The pro forma revenue deficiency for LL Water for the test year amounts to zero.
32 It is based upon a pro formed test year rate base of \$301,317, as summarized in
33 Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro
34 formed test year. The pro formed rate of return of 7.95% when multiplied by the
35 rate base of \$301,317, results in an operating net income requirement of \$23,955.

36
37 As shown on Schedule 1, the pro formed net operating income for LL Water for
38 the test year is \$23,954. The operating income required, less the net operating
39 income, results in a deficiency of zero. The tax effect of the deficiency is zero,
40 resulting in a revenue deficiency for LL Water of zero.

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8 Schedule 1 reflects LL Water’s Statement of Income. Column b shows the actual
9 2019 year end balances. Column c shows pro forma adjustments for known and
10 measurable changes to test year revenues and expenses. Column d shows the pro
11 forma 2019 year end balances. The 2018 and 2017 Statements of Income are not
12 available since 2019 was the first year in which AWC separated the water and
13 sewer. During the 2019 test year, LL Water net income (loss) was \$24,447.

14
15 Schedule 1A shows the pro forma adjustments to revenue and expenses. The
16 Company made 1 pro forma adjustment to operating revenues totaling (\$3,370)
17 and a few pro forma adjustments to operating expenses totaling \$2,284. The
18 specific pro forma adjustments are identified on the Statement of Income – Pro
19 forma Adjustments (Schedule 1A). A brief explanation is as follows:

20
21 Pro forma Adjustment to Operating Revenues

22
23 Operating Revenues – (\$3,370)

24
25 The Company has decreased test year revenues for the proposed amount
26 of revenues necessary to cover its expenses and allow it to earn its proposed rate
27 of return.

28
29 Pro forma Adjustments to Operating Expense

30
31 Operating Expenses:

32
33 Lease Agreements - \$60

34
35 During the test year LL Water incurred \$1,592 for rent of lease space, both
36 at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to \$1,652,
37 resulting in an increase of \$60.

38
39 PUC Audit - \$500

40
41 In anticipation of a PUC audit, AWC estimated that it will incur \$7,500.
42 The estimated costs of \$7,500 will be equally allocated among the 5 systems
43 participating in this rate case, resulting \$1,500 costs per system. No such audit
44 expenses are reflected in the test year. LL Water is proposing to recover the
45 proposed audit expense of \$1,500 over 3 years, resulting in a test year adjustment
46 of \$500.

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Depreciation Expense - \$1,025

8

9

10 In 2019 LL Water added \$5,162 to plant in service. It recorded \$280 for
11 related depreciation. The \$280 of depreciation represents ½ year. The pro forma
12 adjustment for \$280 represents the additional ½ year depreciation in order to
13 reflect the full year’s depreciation of \$560. Also, see Schedule 3B.

13

14

15 In 2020 LL Water anticipates adding \$5,648 to plant in service. The pro
16 forma adjustment for \$745 represents the full year’s depreciation on the
17 anticipated 2020 plant in service. Also, see Schedule 3B.

17

18

Amortization Expense - \$990

19

20

21 In 2017 LL Water incurred \$6,996 related to a water boiling order. LL
22 Water deferred such costs. It is now proposing to seek recovery over a ten year
23 period. The annual costs amounts to \$700. Also, see Schedule 3C.

23

24

25 During 2018 & 2019 AWC incurred \$8,490 of costs related to Dockets IR
26 18-001 and DW 18-047 related to the PUC investigation to determine the rate
27 effect of federal and state corporate tax reductions. The investigation involved
28 AWC preparing a compliance plan along with attachments, the PUC Staff
29 recommendation and the PUC order approving Staff’s recommendation. AWC
30 later allocated such costs to its 3 systems at the time including Lakeland. In 2019
31 Lakeland further allocated such costs between water and sewer. LL Water costs
32 amounts to \$1,453. LL Water is proposing to recover the costs over 5 years, at an
33 annual cost of \$290. Also, see Schedule 3C.

33

34

Taxes other than Income - 157

35

36

37 In 2020 LL Water anticipates adding \$5,648 to plant in service. The
38 addition of \$5,648 to plant in service increases the property tax valuation for both
39 state and local property taxes. The calculation of the increase amounts to \$35 and
40 \$122 for state and local property taxes, respectively. Also, see Schedule 3B.

40

41

Income Taxes – (\$448)

42

43

44 The Company has provided the calculation of the federal income taxes and
45 the state business taxes (Schedule 1B). The Company has also provided the
46 effective tax factor (Schedule 1C).

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6

7 The total pro forma adjustments to Operating Expenses amount to \$2,284.
8

9 The net of the pro forma adjustments to operating revenue of (\$3,370) and
10 the pro forma adjustments to operating expenses of \$2,284 results in a net pro
11 forma adjustment of (\$5,654). When the net operating income associated with the
12 pro forma adjustments is added to net operating income from the test year, the pro
13 forma test year net operating income totals \$23,294. The pro forma test year net
14 operating income of \$23,294 allows LL Water to cover its expenses and
15 earn its proposed 7.95% return on its investments.
16

17 Q. Does that complete your description of the pro forma adjustments to revenues and
18 expenses?
19

20 A. Yes.
21

22 Q. Please describe Schedule 2, the Balance Sheet.
23

24 A. See Total Company Balance Sheet.
25

26 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
27 schedule.
28

29 A. Schedule 3 reflects LL Water Rate Base for both the 5 quarter average and the pro
30 forma year-end balance. Column b – f shows the actual balance at the end of each
31 quarter. Column g shows the average of the 5 quarter balances. Column h shows
32 the pro forma adjustments. Column i shows the pro forma year-end balance.
33

34 Schedule 3A shows the Rate Base – LL Water Pro forma Adjustments. Pro forma
35 adjustments 1, 3 8, 9 & 10 adjust the 5 quarter average balances to the December
36 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since
37 all of the invested capital is fully “used and useful,” providing service to
38 customers with no increase in customers during the test year.
39

40 Adjustment #2 is the addition to plant in service for the anticipated additions to
41 plant in 2020 amounting to \$5,648. Also, see Schedule 3B.
42

43 Adjustment #s 4 and 5 are the additions to accumulated depreciation for the
44 additional ½ year depreciation of \$280 on 2019 additions and the ½ year
45 depreciation of \$372 on anticipated 2020 additions to plant. Also, see Schedule
46 3B.

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7

Adjustments #6 & #7 are the adjustments related to the 2017 water boiling amounting to \$6,996 and the Dockets IR 18-001 and DW 18-047 regarding the PUC investigation to determine the rate effect of federal and state corporate tax reductions amounting to \$1,453. The total addition to rate base is \$8,449. Also, see Schedule 3C. LL Water is proposing that the 2017 water boiling costs and the PUC investigation costs be recovered over 10 years and 5 years, respectively. The total ½ year amortization amounts to \$495. Also, see Schedule 3C

14

15

Adjustment #11 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3D.

18

19

The Total Pro Forma December 31, 2019 Rate Base balance amounts to \$2,373.

20

21

Q. Would you please explain Schedule 4, Rate of Return Information?

22

23

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just LL Water.

26

27

Q. Please explain the Report of Proposed Rate Changes.

28

29

A. If LL Water's rate filing is approved as submitted, its total water Operating Revenues will amount to \$126,077, an increase of \$102.

31

32

R. Is LL Water proposing any changes to the methodology used in calculating the rates?

34

35

A. No. LL Water is calculating the new rates in a manner consistent with its present rates.

37

38

R. When is LL Water proposing that the new rates be effective?

39

40

A. The proposed effective date is 30 days from LL Water's rate filing.

41

42

Q. Is LL Water proposing temporary rates?

43

44

A. Yes. LL Water expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

45

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6
7 Q. Would you please summarize what the LL Water is requesting in its rate filing?

8
9 A. LL Water respectfully requests that the Commissioners approve an increase in
10 annual revenues of \$102 for permanent rates.

11
12 Q. Is there anything further that you would like to discuss?

13
14 A. No, there is nothing further to my testimony as it pertains to LL Water.

15
16 Q. Please begin by describing the **WR Water Schedules**.

17
18 A. The schedule entitled "Computation of Revenue Deficiency for the Test Year
19 ended December 31, 2019," summarizes the supporting schedules. The actual
20 revenue (deficiency) surplus for WR for the test year amounts to (\$36,243). It is
21 based upon an actual test year with a 5 quarter average rate base of \$243,250 as
22 summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual
23 test year. The rate of return of 7.81%, when multiplied by the rate base of
24 \$243,250, results in an operating income requirement of \$18,998. As shown on
25 Schedule 1, the actual net operating income (loss) for WR for the test year was
26 (\$17,425). The operating income required, less the net operating income (loss),
27 results in an operating income (deficiency) surplus before taxes of (\$36,423). WR
28 did not calculate the tax effect of the revenue deficiency, resulting in a revenue
29 (deficiency) surplus for WR of (\$36,423).

30
31 The pro forma revenue deficiency for WR for the test year amounts to zero. It is
32 based upon a pro formed test year rate base of \$507,033, as summarized in
33 Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro
34 formed test year. The pro formed rate of return of 7.95% when multiplied by the
35 rate base of \$507,033, results in an operating net income requirement of \$40,309.

36
37 As shown on Schedule 1, the pro formed net operating income for WR for the test
38 year is \$40,309. The operating income required, less the net operating income,
39 results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in
40 a revenue deficiency for WR of zero.

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7

8 Schedule 1 reflects WR's Statements of Income. Column b shows the actual 2019
9 year end balances. Column c shows pro forma adjustments for known and
10 measurable changes to test year revenues and expenses. Column d shows the pro
11 forma 2019 year end balances. The 2018 and 2017 Statements of Income are
12 shown in columns e and f, respectively. During the 2019 test year, WR net
13 income (loss) was (\$19,532).

14
15 Schedule 1A shows the pro forma adjustments to revenue and expenses. The
16 Company made 1 pro forma adjustment to operating revenues totaling \$99,778
17 and a few pro forma adjustments to operating expenses totaling \$42,044. The
18 specific pro forma adjustments are identified on the Statement of Income – Pro
19 forma Adjustments (Schedule 1A). A brief explanation is as follows:

20
21 Pro forma Adjustment to Operating Revenues

22
23 Operating Revenues – \$99,778

24
25 The Company has increased test year revenues for the proposed amount of
26 revenues necessary to cover its expenses and allow it to earn its proposed rate of
27 return.

28
29 Pro forma Adjustments to Operating Expense

30
31 Operating Expenses:

32
33 Lease Agreements - \$81

34
35 During the test year WR incurred \$1,881 for rent of lease space, both at
36 Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to \$1,962,
37 resulting in an increase of \$60.

38
39 PUC Audit - \$500

40
41 In anticipation of a PUC audit, AWC estimated that it will incur \$7,500.
42 The estimated costs of \$7,500 will be equally allocated among the 5 systems
43 participating in this rate case, resulting \$1,500 costs per system. No such audit
44 expenses are reflected in the test year. WR is proposing to recover the proposed
45 audit expense of \$1,500 over 3 years, resulting in a test year adjustment of \$500.

46

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6
7 Depreciation Expense - \$5,911

8
9 In 2019 WR added \$22,107 to plant in service. It recorded \$835 for
10 related depreciation. The \$835 of depreciation represents ½ year. The pro forma
11 adjustment for \$835 represents the additional ½ year depreciation in order to
12 reflect the full year’s depreciation of \$1,657. Also, see Schedule 3B.

13
14 In 2020 WR anticipates adding \$169,097 to plant in service. The pro
15 forma adjustment for \$5,076 represents the full year’s depreciation on the
16 anticipated 2020 plant in service. Also, see Schedule 3B.

17
18 Amortization of CIAC - \$1,600

19
20 In 2019/2020, WR had its tanks inspected, costing a total \$26,512. WR
21 received a grant of \$8,000 from WR deferred the costs and the related grant.
22 WR is now seeking recovery of the amount and the related grant over 5 year. The
23 annual amortization of CIAC over 5 years amounts to \$1,600. Also, see Schedule
24 3C.

25
26 Amortization Expense associated with Miscellaneous Deferred Debits - \$14,380

27
28 In 2018 & 2019 WR incurred significant expenditures amounting to
29 \$87,625 related to water outages. WR deferred such costs. It is now proposing to
30 seek recovery over a ten year period. The annual costs amounts to \$8,763. Also,
31 see Schedule 3C.

32
33 During 2018 & 2019 AWC incurred \$8,490 of costs related to Dockets IR
34 18-001 and DW 18-047 related to the PUC investigation to determine the rate
35 effect of federal and state corporate tax reductions. The investigation involved
36 AWC preparing a compliance plan along with attachments, the PUC Staff
37 recommendation and the PUC order approving Staff’s recommendation. AWC
38 later allocated such costs to its 3 systems at the time including WR. WR costs
39 amounts to \$1,577. WR is proposing to recover the costs over 5 years, at an
40 annual cost of \$315. Also, see Schedule 3C.

41
42 In 2019/2020, WR had its tanks inspected, costing a total \$26,512. WR
43 received a grant of \$8,000 from WR deferred the costs and the related grant.
44 WR is now seeking recovery of the amount and the related grant over 5 year. The
45 annual costs over 5 years amount to \$5,302. Also, see Schedule 3C.

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7

Taxes other than Income – 4,281

8

9

In 2020 WR anticipates adding \$169,097 to plant in service. The addition of \$169,097 to plant in service increases the property tax valuation for both state and local property taxes. The calculation of the increase amounts to \$861 and \$3,420 for state and local property taxes, respectively. Also, see Schedule 3B.

10

11

12

13

14

Income Taxes – \$18,490

15

16

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

17

18

19

20

The total pro forma adjustments to Operating Expenses amount to \$42,044.

21

22

23

The net of the pro forma adjustments to operating revenue of \$99,778 and the pro forma adjustments to operating expenses of \$42,044 results in a net pro forma adjustment of \$57,734. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals \$40,309. The pro forma test year net operating income of \$40,309 allows WR to cover its expenses and earn its proposed 7.95% return on its investments.

24

25

26

27

28

29

30

31 Q. Does that complete your description of the pro forma adjustments to revenues and expenses?

32

33

34 A. Yes.

35

36 Q. Please describe Schedule 2, the Balance Sheet.

37

38 A. See Total Company Balance Sheet.

39

40 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

41

42

43 A. Schedule 3 reflects WR Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance.

44

45

46

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6
7 Schedule 3A shows the Rate Base – WR Pro forma Adjustments. Pro forma
8 adjustments 1, 3, 8, 10 & 12 adjust the 5 quarter average balances to the
9 December 31, 2019 balances. It is appropriate to use the December 31, 2019
10 balance since all of the invested capital is fully “used and useful,” providing
11 service to customers with no increase in customers during the test year.

12
13 Adjustment #2 is the addition to plant in service for the anticipated additions to
14 plant in 2020 amounting to \$169,097. Also, see Schedule 3B.

15
16 Adjustment #s 4 and 5 are the additions to accumulated depreciation for the
17 additional ½ year depreciation of \$835 on 2019 additions and the ½ year
18 depreciation of \$2,538 on anticipated 2020 additions to plant. Also, see Schedule
19 3B.

20
21 Adjustments #6 & #7 are the adjustments related to the 2018 & 2019 water
22 outages amounting to \$87,625, the Dockets IR 18-001 and DW 18-047 regarding
23 the PUC investigation to determine the rate effect of federal and state corporate
24 tax reductions amounting to \$1,577 and the 2019/2020 tank inspections
25 amounting to \$26,512. The total addition to rate base is \$115,714. Also, see
26 Schedule 3C. WR is proposing that the 2018 & 2019 water outages over 10 years
27 and the PUC investigation and tank inspection 5 years. The total ½ year
28 amortization amounts to \$7,190. Also, see Schedule 3C.

29
30 Adjustment #s 9 and 11 are related to the \$8,000 grant for the tank inspections
31 reflected as CIAC and the ½ year amortization of CIAC amounting to \$800.
32 Also, see Schedule 3C.

33
34 Adjustment #13 pertains to cash working capital and shows the additional cash
35 working capital due to the proposed increase in O&M expenses. The cash
36 working capital balances are further supported by Schedules 3D.

37
38 The Total Pro Forma December 31, 2019 Rate Base balance amounts to
39 \$263,783.

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6

7

8 Q. Would you please explain Schedule 4, Rate of Return Information?

9

10 A. See Total Company Capital Structure and Rate of Return Information. Please
11 note that the Capital Structure and Rate of Return Information is for AWC (Total
12 Company) and not just WR.

13
14 Q. Please explain the Report of Proposed Rate Changes.

15
16 A. If WR's rate filing is approved as submitted, its total water Operating Revenues
17 will amount to \$184,611, an increase of \$102,475.

18
19 S. Is WR proposing any changes to the methodology used in calculating the rates?

20
21 A. No. WR is calculating the new rates in a manner consistent with its present rates.

22
23 S. When is WR proposing that the new rates be effective?

24
25 A. The proposed effective date is 30 days from WR's rate filing.

26
27 Q. Is WR proposing temporary rates?

28
29 A. Yes. WR expects to file a separate temporary rate filing, approximately 1 – 2
30 weeks after the permanent rate filing.

31
32 Q. Would you please summarize what the WR is requesting in its rate filing?

33
34 A. WR respectfully requests that the Commissioners approve an increase in annual
35 revenues of \$102,475 for permanent rates.

36
37 Q. Is there anything further that you would like to discuss?

38
39 A. No, there is nothing further to my testimony as it pertains to WR.

40

41

42

43

44

45

46

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7 **Q. Please begin by describing the TGV Water Schedules.**

8
9 **A.** The schedule entitled “Computation of Revenue Deficiency for the Test Year
10 ended December 31, 2019,” summarizes the supporting schedules. The actual
11 revenue (deficiency) surplus for TGV for the test year amounts to (\$33,209). It is
12 based upon an actual test year with a 5 quarter average rate base of \$119,913 as
13 summarized in Schedule 3. AWC’s actual rate of return is 7.81% for the actual
14 test year. The rate of return of 7.81%, when multiplied by the rate base of
15 \$119,913, results in an operating income requirement of \$9,365. As shown on
16 Schedule 1, the actual net operating income (loss) for TGV for the test year was
17 (\$23,844). The operating income required, less the net operating income (loss),
18 results in an operating income (deficiency) surplus before taxes of (\$33,209).
19 TGV did not calculate the tax effect of the revenue deficiency, resulting in a
20 revenue (deficiency) surplus for TGV of (\$33,209).

21
22 The pro forma revenue deficiency for TGV for the test year amounts to zero. It is
23 based upon a pro formed test year rate base of \$145,202, as summarized in
24 Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro
25 formed test year. The pro formed rate of return of 7.95% when multiplied by the
26 rate base of \$145,202, results in an operating net income requirement of \$11,544.

27
28 As shown on Schedule 1, the pro formed net operating income for TGV for the
29 test year is \$11,544. The operating income required, less the net operating
30 income, results in a deficiency of zero. The tax effect of the deficiency is zero,
31 resulting in a revenue deficiency for TGV of zero.

32
33 Schedule 1 reflects TGV’s Statements of Income for the 12 months ended
34 4/30/20. As previously stated, TGV is using the 12 months ended 4/30/20
35 because there were only 8 months of actual data in the 2019 test year. Column b
36 shows the actual 12 months ended 4/30/20. Column c shows pro forma
37 adjustments for known and measurable changes to test year revenues and
38 expenses. Column d shows the pro forma 12 months ended 4/30/20. The 12
39 months ended 4/30/19 and 4/30/18 was prior to AWC’s ownership. During the 12
40 months ended 4/30/20, TGV net income (loss) was (\$24,600).

41
42 Schedule 1A shows the pro forma adjustments to revenue and expenses. The
43 Company made 1 pro forma adjustment to operating revenues totaling \$47,942
44 and a few pro forma adjustments to operating expenses totaling \$12,554. The
45 specific pro forma adjustments are identified on the Statement of Income – Pro
46 forma Adjustments (Schedule 1A). A brief explanation is as follows:

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6
7 Pro forma Adjustment to Operating Revenues

8
9 Operating Revenues – \$47,942

10
11 The Company has increased test year revenues for the proposed amount of
12 revenues necessary to cover its expenses and allow it to earn its proposed rate of
13 return.

14
15 Pro forma Adjustments to Operating Expense

16
17 Operating Expenses:

18
19 Lease Agreements - \$343

20
21 During the test year TGV incurred \$463 for rent of lease space, both at
22 Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to \$806,
23 resulting in an increase of \$343.

24
25 PUC Audit - \$500

26
27 In anticipation of a PUC audit, AWC estimated that it will incur \$7,500.
28 The estimated costs of \$7,500 will be equally allocated among the 5 systems
29 participating in this rate case, resulting \$1,500 costs per system. No such audit
30 expenses are reflected in the test year. TGV is proposing to recover the proposed
31 audit expense of \$1,500 over 3 years, resulting in a test year adjustment of \$500.

32
33 Depreciation Expense - \$886

34
35 In 2019 TGV added \$31,715 to plant in service. It recorded \$783 for
36 related depreciation. The \$783 of depreciation represents ½ year. The pro forma
37 adjustment for \$786 represents the additional ½ year depreciation in order to
38 reflect the full year's depreciation of \$1,566. Also, see Schedule 3B.

39
40 In 2020 TGV anticipates adding \$1,471 to plant in service. The pro forma
41 adjustment for \$100 represents the full year's depreciation on the anticipated 2020
42 plant in service. Also, see Schedule 3B.

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7

Amortization of Organizational Costs - \$2,232

8

9

10 AWC incurred due diligence costs in the process of purchasing the TGV
11 water system and gaining PUC approval (DW xx-xxx). The recovery of these
12 costs is consistent with the PUC's approval of similar due diligence costs incurred
13 when AWC purchased LL, WR and Rosebrook. TGV is proposing to amortize
14 the due diligence costs over 15 years. The annual amortization expense is \$2,232.
15 Also, see Schedule 3B.

16

Taxes other than Income – \$1,031

17

18

19 Total annual property taxes for the Town of Gilford are \$1,523. The
20 amount of property taxes reflected in the test year was \$492, resulting in a pro
21 forma adjustment of \$1,031.

22

23

24 In 2020 TGV anticipates adding \$34,932 to plant in service. The addition
25 of \$34,932 to plant in service increases the property tax valuation for both state
26 and local property taxes. The calculation of the increase amounts to \$175 and
27 \$370 for state and local property taxes, respectively. Also, see Schedule 3B.

28

Income Taxes – \$7,562

29

30

31 The Company has provided the calculation of the federal income taxes and
32 the state business taxes (Schedule 1B). The Company has also provided the
33 effective tax factor (Schedule 1C).

34

35

36 The total pro forma adjustments to Operating Expenses amount to
37 \$12,554.

38

39

40 The net of the pro forma adjustments to operating revenue of \$47,942 and
41 the pro forma adjustments to operating expenses of \$12,554 results in a net pro
42 forma adjustment of \$35,388. When the net operating income associated with the
43 pro forma adjustments is added to net operating income from the test year, the pro
44 forma test year net operating income totals \$11,544. The pro forma test year net
45 operating income of \$11,544 allows TGV to cover its expenses and earn its
proposed 7.95% return on its investments.

43

44

45

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6
7 Q. Does that complete your description of the pro forma adjustments to revenues and
8 expenses?

9
10 A. Yes.

11
12 Q. Please describe Schedule 2, the Balance Sheet.

13
14 A. See Total Company Balance Sheet.

15
16 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
17 schedule.

18
19 A. Schedule 3 reflects TGV Rate Base for both the 5 quarter average and the pro
20 forma year-end balance. Column b – f shows the actual balance at the end of each
21 quarter. Column g shows the average of the 5 quarter balances. Column h shows
22 the pro forma adjustments. Column i shows the pro forma year-end balance.
23 Please note that the December 2018 and March 2019 balances are before AWC
24 purchase of TGV. As such, the December 2018 and the March 2019 balances are
25 assumed to be the same as June 2019.

26
27 Schedule 3A shows the Rate Base – TGV Pro forma Adjustments. Pro forma
28 adjustments 1, 4, 8, 9, 10, 11 & 12 adjust the 5 quarter average balances to the
29 December 31, 2019 balances. It is appropriate to use the December 31, 2019
30 balance since all of the invested capital is fully “used and useful,” providing
31 service to customers with no increase in customers during the test year.

32
33 Adjustment #2 is the addition to plant in service for the anticipated additions to
34 plant in 2020 amounting to \$1,471. Also, see Schedule 3B.

35
36 Adjustment #3 is the addition to plant in service for the due diligence costs of
37 \$33,461 in the process of purchasing the TGV water system and gaining PUC
38 approval (DW xx-xxx). Also, see Schedule 3B.

39
40 Adjustment #s 5 and 6 are the additions to accumulated depreciation for the
41 additional ½ year depreciation of \$783 on 2019 additions and the ½ year
42 depreciation of \$50 on anticipated 2020 additions to plant. Also, see Schedule 3B.

43
44 Adjustments #7 is the adjustments related to the due diligence costs of \$33,461 in
45 the process of purchasing the TGV water system and gaining PUC approval (DW
46 18-108). Also, see Schedule 3B.

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7

Adjustment #13 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3C.

8

9

10

11

The Total Pro Forma December 31, 2019 Rate Base balance amounts to \$25,289.

12

13

Q. Would you please explain Schedule 4, Rate of Return Information?

14

15

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just TGV.

16

17

18

19

Q. Please explain the Report of Proposed Rate Changes.

20

21

A. If TGV's rate filing is approved as submitted, its total water Operating Revenues will amount to \$76,102, an increase of \$47,269.

22

23

24

Q. Is TGV proposing any changes to the methodology used in calculating the rates?

25

26

A. No. TGV is calculating the new rates in a manner consistent with its present rates.

27

28

29

Q. When is TGV proposing that the new rates be effective?

30

31

A. The proposed effective date is 30 days from TGV's rate filing.

32

33

Q. Is TGV proposing temporary rates?

34

35

A. Yes. TGV expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

36

37

38

Q. Would you please summarize what the TGV is requesting in its rate filing?

39

40

A. TGV respectfully requests that the Commissioners approve an increase in annual revenues of \$47,269 for permanent rates.

41

42

43

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

44

45

A. No, there is nothing further to my testimony as it pertains to TGV.

46

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6
7 Q. Please begin by describing the **TB Water Schedules**.

8
9 A. The schedule entitled “Computation of Revenue Deficiency for the Test Year
10 ended December 31, 2019,” summarizes the supporting schedules. The actual
11 revenue (deficiency) surplus for TB for the test year amounts to (\$37,089). It is
12 based upon an actual test year with a 5 quarter average rate base of \$72,615 as
13 summarized in Schedule 3. AWC’s actual rate of return is 7.81% for the actual
14 test year. The rate of return of 7.81%, when multiplied by the rate base of
15 \$72,615, results in an operating income requirement of \$5,671. As shown on
16 Schedule 1, the actual net operating income (loss) for TB for the test year was
17 (\$31,418). The operating income required, less the net operating income (loss),
18 results in an operating income (deficiency) surplus before taxes of (\$37,089). TB
19 did not calculate the tax effect of the revenue deficiency, resulting in a revenue
20 (deficiency) surplus for TB of (\$37,089).

21
22 The pro forma revenue deficiency for TB for the test year amounts to zero. It is
23 based upon a pro formed test year rate base of \$199,606, as summarized in
24 Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro
25 formed test year. The pro formed rate of return of 7.95% when multiplied by the
26 rate base of \$199,606, results in an operating net income requirement of \$15,569.

27
28 As shown on Schedule 1, the pro formed net operating income for TB for the test
29 year is \$15,869. The operating income required, less the net operating income,
30 results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in
31 a revenue deficiency for TB of zero.

32
33 Schedule 1 reflects TB’s Statements of Income for the 12 months ended 4/30/20.
34 As previously stated, TB is using the 12 months ended 4/30/20 because there were
35 only 8 months of actual data in the 2019 test year. Column b shows the actual 12
36 months ended 4/30/20. Column c shows pro forma adjustments for known and
37 measurable changes to test year revenues and expenses. Column d shows the pro
38 forma 12 months ended 4/30/20. The 12 months ended 4/30/19 and 4/30/18 was
39 prior to AWC’s ownership. During the 12 months ended 4/30/20, TGV net
40 income (loss) was (\$32,136).

41
42 Schedule 1A shows the pro forma adjustments to revenue and expenses. The
43 Company made 1 pro forma adjustment to operating revenues totaling \$78,403
44 and a few pro forma adjustments to operating expenses totaling \$31,116. The
45 specific pro forma adjustments are identified on the Statement of Income – Pro
46 forma Adjustments (Schedule 1A). A brief explanation is as follows:

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6
7 Pro forma Adjustment to Operating Revenues

8
9 Operating Revenues – \$78,403

10
11 The Company has increased test year revenues for the proposed amount of
12 revenues necessary to cover its expenses and allow it to earn its proposed rate of
13 return.

14
15 Pro forma Adjustments to Operating Expense

16
17 Operating Expenses:

18
19 Lease Agreements - \$179

20
21 During the test year TB incurred \$275 for rent of lease space, both at
22 Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to \$454,
23 resulting in an increase of \$179.

24
25 PUC Audit - \$500

26
27 In anticipation of a PUC audit, AWC estimated that it will incur \$7,500.
28 The estimated costs of \$7,500 will be equally allocated among the 5 systems
29 participating in this rate case, resulting \$1,500 costs per system. No such audit
30 expenses are reflected in the test year. TB is proposing to recover the proposed
31 audit expense of \$1,500 over 3 years, resulting in a test year adjustment of \$500.

32
33 Depreciation Expense - \$1,752

34
35 In 2019 TB added \$8,512 to plant in service. It recorded \$211 for related
36 depreciation. The \$211 of depreciation represents ½ year. The pro forma
37 adjustment for \$211 represents the additional ½ year depreciation in order to
38 reflect the full year's depreciation of \$422. Also, see Schedule 3B.

39
40 In 2020 TB anticipates adding \$53,502 to plant in service. The pro forma
41 adjustment for \$1,541 represents the full year's depreciation on the anticipated
42 2020 plant in service. Also, see Schedule 3B.

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6
7 Amortization of CIAC - \$60

8
9 In 2020, NHDES approved a grant of \$5,000 as part of its approval of a
10 \$45,000 loan / \$5,000 grant special project from the NH DWGTF for a larger
11 storage tank and system isolation valves. TB allocated the grant to the tank and
12 valves with lives of 40 and 50 years, respectively. The annual amortization of
13 CIAC amounts to \$60. Also, see Schedule 3B.

14
15 Amortization Expenses – Other - \$5,335

16
17 AWC incurred due diligence costs in the process of purchasing the TB
18 water system and gaining PUC approval (DW xx-xxx). The recovery of these
19 costs is consistent with the PUC's approval of similar due diligence costs incurred
20 when AWC purchased LL, WR and Rosebrook. TB is proposing to amortize the
21 due diligence costs over 15 years. The annual amortization expense is \$2,146.
22 Also, see Schedule 3B.

23
24 In 2019 TB incurred significant expenditures associated with a main break
25 and the purchase of water to provide to customers during the outage. The
26 expenditures amounted to \$31,890. TB deferred such costs. It is now proposing
27 to seek recovery over a ten year period. The annual costs amounts to \$3,189.
28 Also, see Schedule 3C.

29
30 Taxes other than Income – \$11,430

31
32 Total annual property taxes for the Town of Belmont are \$11,730. The
33 amount of property taxes reflected in the test year was \$300, resulting in a pro
34 forma adjustment of \$11,430.

35
36 In 2020 TB anticipates adding \$85,677 to plant in service. The addition of
37 \$85,677 to plant in service increases the property tax valuation for both state and
38 local property taxes. The calculation of the increase amounts to \$433 and \$1,952
39 for state and local property taxes, respectively. Also, see Schedule 3B.

40
41 Income Taxes – \$11,860

42
43 The Company has provided the calculation of the federal income taxes and
44 the state business taxes (Schedule 1B). The Company has also provided the
45 effective tax factor (Schedule 1C).

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7

The total pro forma adjustments to Operating Expenses amount to
8 \$31,116.

9

10 The net of the pro forma adjustments to operating revenue of \$78,403 and
11 the pro forma adjustments to operating expenses of \$31,116 results in a net pro
12 forma adjustment of \$47,287. When the net operating income associated with the
13 pro forma adjustments is added to net operating income from the test year, the pro
14 forma test year net operating income totals \$15,869. The pro forma test year net
15 operating income of \$15,869 allows TB to cover its expenses and earn its
16 proposed 7.95% return on its investments.

17

18 Q. Does that complete your description of the pro forma adjustments to revenues and
19 expenses?

20

21 A. Yes.

22

23 Q. Please describe Schedule 2, the Balance Sheet.

24

25 A. See Total Company Balance Sheet.

26

27 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
28 schedule.

29

30 A. Schedule 3 reflects TB Rate Base for both the 5 quarter average and the pro forma
31 year-end balance. Column b – f shows the actual balance at the end of each
32 quarter. Column g shows the average of the 5 quarter balances. Column h shows
33 the pro forma adjustments. Column i shows the pro forma year-end balance.
34 Please note that the December 2018 and March 2019 balances are before AWC
35 purchase of TB. As such, the December 2018 and the March 2019 balances are
36 assumed to be the same as June 2019.

37

38 Schedule 3A shows the Rate Base – TB Pro forma Adjustments. Pro forma
39 adjustments 1, 4, 8, 11, 13 & 15 adjust the 5 quarter average balances to the
40 December 31, 2019 balances. It is appropriate to use the December 31, 2019
41 balance since all of the invested capital is fully “used and useful,” providing
42 service to customers with no increase in customers during the test year.

43

44 Adjustment #2 is the addition to plant in service for the anticipated additions to
45 plant in 2020 amounting to \$53,502. Also, see Schedule 3B.

46

1 Adjustment #3 is the addition to plant in service for the due diligence costs of
2 \$32,175 in the process of purchasing the TB water system and gaining PUC
3 approval (DW 18-108). Also, see Schedule 3B.

4
5 Adjustment #s 5 and 6 are the additions to accumulated depreciation for the
6 additional ½ year depreciation of \$211 on 2019 additions and the ½ year
7 depreciation of \$711 on anticipated 2020 additions to plant. Also, see Schedule
8 3B.

9
10 Adjustments #7 is the adjustments related to the due diligence costs of \$32,851 in
11 the process of purchasing the TB water system and gaining PUC approval (DW
12 xx-xxx). Also, see Schedule 3B.

13
14 Adjustments #9 & #10 are the 2019 main break and purchase of water amounting
15 to \$31,890 and the related ½ year amortization of such amount over 10 years
16 amounting to \$1,595. Also, see Schedule 3C.

17
18 Adjustment #s 12 and 14 are related to the \$5,000 grant for the tank/valves
19 reflected as CIAC and the ½ year amortization of CIAC amounting to \$60. Also,
20 see Schedule 3B.

21
22 Adjustment #15 pertains to cash working capital and shows the additional cash
23 working capital due to the proposed increase in O&M expenses. The cash
24 working capital balances are further supported by Schedules 3C.

25
26 The Total Pro Forma December 31, 2019 Rate Base balance amounts to
27 \$126,991.

28
29 Q. Would you please explain Schedule 4, Rate of Return Information?

30
31 A. See Total Company Capital Structure and Rate of Return Information. Please
32 note that the Capital Structure and Rate of Return Information is for AWC (Total
33 Company) and not just TB.

34
35 Q. Please explain the Report of Proposed Rate Changes.

36
37 A. If TB's rate filing is approved as submitted, its total water Operating Revenues
38 will amount to \$96,509, an increase of \$78,163.

39
40 Q. Is TB proposing any changes to the methodology used in calculating the rates?

41
42 A. No. TB is calculating the new rates in a manner consistent with its present rates.

43
44 Q. When is TB proposing that the new rates be effective?

45
46 A. The proposed effective date is 30 days from TB's rate filing.

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6
7 Q. Is TB proposing temporary rates?

8
9 A. Yes. TB expects to file a separate temporary rate filing, approximately 1 – 2
10 weeks after the permanent rate filing.

11
12 Q. Would you please summarize what the TB is requesting in its rate filing?

13
14 A. TB respectfully requests that the Commissioners approve an increase in annual
15 revenues of \$78,163 for permanent rates.

16
17 Q. Is there anything further that you would like to discuss?

18
19 A. No, there is nothing further to my testimony as it pertains to TB.

20
21 Q. Please begin by describing the **AWC Combined Water Schedules**.

22
23 A. The schedule entitled “Computation of Revenue Deficiency for the Test Year
24 ended December 31, 2019,” summarizes the supporting schedules. The actual
25 revenue (deficiency) surplus for AWC Combined for the test year amounts to
26 (\$100,461). It is based upon an actual test year with a 5 quarter average rate base
27 of \$734,721 as summarized in Schedule 3. AWC’s actual rate of return is 7.81%
28 for the actual test year. The rate of return of 7.81%, when multiplied by the rate
29 base of \$734,721, results in an operating income requirement of \$57,382. As
30 shown on Schedule 1, the actual net operating income (loss) for AWC Combined
31 for the test year was (\$43,079). The operating income required, less the net
32 operating income (loss), results in an operating income (deficiency) surplus
33 before taxes of (\$100,461). AWC Combined did not calculate the tax effect of the
34 revenue deficiency, resulting in a revenue (deficiency) surplus of (\$100,461).

35
36 The pro forma revenue deficiency for AWC Combined for the test year amounts
37 to zero. It is based upon a pro formed test year rate base of \$1,153,159, as
38 summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95%
39 for the pro formed test year. The pro formed rate of return of 7.95% when
40 multiplied by the rate base of \$1,153,159, results in an operating net income
41 requirement of \$91,676.

42
43 As shown on Schedule 1, the pro formed net operating income for AWC
44 Combined for the test year is \$91,676. The operating income required, less the
45 net operating income, results in a deficiency of zero. The tax effect of the
46 deficiency is zero, resulting in a revenue deficiency for AWC Combined of zero.

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7

Schedule 1 reflects test year Statements of Income for LL Water, WR, TGV & TB, the combined Statements of Income, the Pro Forma Adjustments and the Combined Pro Forma Balances.

8

9

10

11

Schedule 3 reflects the 5 quarter averages for LL Water, WR, TGV & TB, the combined 5 quarter averages, the Pro Forma Adjustments and the Combined Pro Forma Balances.

12

13

14

15

Q. Please explain the Report of Proposed Rate Changes for the AWC Combined.

16

17

A. If AWC Combined rate filing is approved as submitted, its total water Operating Revenues will amount to \$483,229, an increase of \$228,009.

18

19

20

Q. Is there anything else that you would like to say about the Report of Proposed Rate Changes for the AWC Combined?

21

22

23

A. Yes, please note that LL Water, WR, TGV & TB bill monthly. LL Water has multiple classes of customers. WR, TGV & TB have just one class. TGV has 3 customers that consist of multi-family units. TGV also has a few customers that may be considered commercial? This is all to say that if the water entities' proposal to consolidate rates is put into place, a complete review of each customer base should be made and adjusted as appropriate.

24

25

26

27

28

29

30

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

31

32

A. Yes. AWC has engaged the services of Stephen P. St. Cyr & Associates to prepare the rate filing and pursue the rate increase throughout the rate case proceeding. St. Cyr & Associates and AWC have agreed on a per hour fee of \$140.00 for each hour of work performed. AWC and I believe that the fees are fair and reasonable. At this point, AWC does not anticipate utilizing outside legal counsel.

33

34

35

36

37

38

39

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

40

41

A. Yes. The water entities will pursue temporary rates as part of this rate case filing. The temporary rate filing will be filed under a separate cover letter within 1 -2 weeks.

42

43

44

45

46

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6

7 Q. Does this conclude your testimony?

8

9 A. Yes.

10

11

12

13 SPSt. Cyr

14 09/11/20

15

16