TAB 8

Testimony of Stephen P. St. Cyr

Puc 1604.02(a)(3)

The Hampstead Area Water Company, Inc.

before the

New Hampshire Public Utilities Commission

DW 20-117

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 (“SPS&A”), which primarily provides accounting, management, regulatory and tax services. SPS&A devotes a significant portion of the practice to serving utilities. SPS&A 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 SPS&A, 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).

Q. Is SPS&A presently providing services to Hampstead Area Water Company ("HAWC" or the "Company")?

A. Yes. SPS&A assists HAWC in its year end closing and preparation of financial statement and tax returns. SPS&A assists HAWC in various regulatory filings including expansion of its franchise, financing of construction projects and adjusting rates. SPS&A 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 HAWC's efforts to increase rates to its customers to reflect in rates its additions to plant and its expenses adjusted for known and measurable changes.

Q. Please provide an overview of the rate filing.

A. It has been approximately 3 years since its last rate case (DW 17-118). Since that time, HAWC has increased its franchise areas and increased its plant. In 2019/2020 the Company constructed a one million gallon water storage tank in its Atkinson and Hampstead water system. The storage tank went into service in early May 2020. The total actual cost of the tank amounted to $1,573,869, of which the State of NH provides a grant of 62.5% of $983,668, resulting in a net cost to the Company of $590,201 plus the related taxes on the contribution in aid of construction ("CIAC") of $266,377. The total costs of $856,578 were borrowed from the NH Drinking Ground and Water Trust Fund" ("DGWTF").

The borrowing was approved by the Commission in Order No. 26,230 dated March 29, 2019 in DW 18-138. The Company also began construction on its portion of the Southern New Hampshire Regional Water Project ("SNHRWP") including appurtenant infrastructure and improvements to its core water system. The SNHRWP will provide water from Manchester through Derry and Salem to the HAWC core system and ultimately to Plaistow. The SNHRWP is projected to be placed in service beginning in 2020. The total cost of the SNHRWP is projected to amount to $4,963,237, of which the State of NH is projected to contribute $4,070,737. While the costs are estimated, all of the plant will be known and measureable during the course of the proceeding. As such, the Company proposes to replace the estimated costs with actual costs when such costs become known and measureable. The contribution of $4,070,737 results in related projected taxes of $1,102,356. The projected taxes of $1,102,356 are being borrowed from the DGWTF. The borrowing was approved by the Commission in Order No. 26,407 dated September 28, 2020 in DW 19-147. The Company has also taken advantage of low interest rates provided by the NH DGWTF. The Company has also accepted additional paid in capital to improve cash flow, pay for capital replacements / improvements and better balance the capital structure. HAWC's shareholder has a long history of contributing additional paid in capital including $400,000, $400,000 and $500,000 in 2017, 2018 & 2019 respectively. Also, in 2019, HAWC's shareholder committed to contributing a total of at least $750,000 to HAWC during 2019 - 2021. With the $500,000 contributed in 2019 and the recent contribution of $300,000 in 2020, HAWC's shareholder has already exceeded the $750,000 contribution of additional paid in capital. At 12/31/19 the capital structure consisted of 41% equity and 59% debt, a reasonable balance. With the additional debt financing associated with the Atkinson tank and the SNHRWP, HAWC's capital structure is projected to consist of 35% equity and 65% debt. The Company is also utilizing the PUC Staff provided baseline return of equity ("ROE") of 9.69% plus a .50% adder for rate case expense savings plus a .25% for exemplary performance. With the increase in franchise areas, both customers and revenues increase. Similarly, expenses increase. Also, the Company expects a net increase in expenses associated with both the Atkinson tank and the SNHRWP. 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 continue to provide good quality water with good pressure, good reliability, and 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 5 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 $224,853. It is based upon a 13 month average balance for 2019 of $5,237,474 as summarized in Schedule 3. The Company is utilizing its actual rate of return of 5.78% for the actual test year. The actual rate of return of 5.78%, when multiplied by the rate base of $5,237,474, results in an operating income requirement of $302,531. As shown on Schedule 1, the actual net operating income for the test period was $77,678. The operating income requirement less the net operating income results in an operating income deficiency of $224,853. The tax effect on the operating income deficiency is $0, resulting in a revenue deficiency of $224,853.

The pro forma revenue deficiency for the test year amounts to $0. The Company made various adjustments to its rate base, related to SNHRWP, the Atkinson tank, other plant and the 13 month average balances to 2019 year end balances. The

Company adjusted the rate of return to reflect its pro forma capital structure, its pro forma cost of debt, and an 10.44% cost of equity. The net of the adjustments to the capital structure and the adjustments to the cost rates results in a proposed rate of return of 5.56%. As such, the proposed rate of return of 5.56%, when multiplied by the pro forma rate base of $9,966,564, results in an operating income requirement of $554,132. The Company increased its revenue by $1,523,330 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 $2,325,428, an increase of $281,950 or 13.80%. The increase in operating revenue in 2019 was due to the increase in the number of customers and in the number of gallons sold. The Company customer base continues to grow. The Company had 3,857 customers as of December 31, 2019. The Company's operating expenses consist of operation and maintenance expenses, depreciation and amortization expenses, and taxes. The total 2019 operating expenses amounted to $2,247,750, an increase of $190,302 or 9.25%.

Operation and maintenance expenses increased $162,998, primarily due to increased administrative and general expenses, transmission and distribution expenses and customer accounts expenses. Depreciation expenses increased by $31,841. The increases were partially offset by lower taxes other than income. The Company's net operating income amounted to $77,678.

The Company reviewed a number of expense accounts in its preparation of the rate filing. In its review, the Company determined that certain expenses needed to be adjusted in order to reflect what would be considered normal and recurring.

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 two pro forma adjustments to revenue.

<u>Operating Revenues</u>

<u>1. Operating Revenues due to Sale of Water to Plaistow - $175,180.</u>

The pro forma adjustment to revenue represents the additional revenue of $175,180 due to the sale of water to Plaistow as part of the SNHRWP. The Company will be purchasing 100,000 gallons of water a day from SNHRWP and reselling it to Plaistow. The prices have been set by NHDES as a result of a cost of service done for NHDES. The Company will be purchasing at $3.05 per ccf and reselling at $3.59 per ccf. The sale to Plaistow increases revenue by $175,180.

2. Operating Revenues needed to earn return and recover expenses - $1,348,150.

The pro forma adjustment to revenue represents the additional revenue of $1,348,150 needed to recover the increase in its pro forma expenses and to earn a reasonable return on its pro forma rate base.

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

3. Purchased Water for Company - $372,075.

In addition to purchasing water from SNHRWP to resell to Plaistow, the Company is also purchasing 250,000 gallons a day from Manchester to serve its core customers in Hampstead and Atkinson. Again, the Company will be purchasing the water at $3.05 per ccf, resulting in a purchased water expense of $372,075.

4. Purchased Water for Plaistow - $148,830.

As indicated earlier, the Company will be purchasing water from SNHRWP to resell to Plaistow. The cost of the purchased water is at $3.05 per ccf, resulting in a purchased water expense of $148,830.

5. Well Expenses – ($7,144).

With the purchase of water from SNHRWP, some of the existing wells will be retired. With the retirement of the some of the existing wells, the Company anticipates a 20% reduction in well expenses. During the test year, the Company incurred $35,720. A 20% reduction amounts to ($7,144).

<u>6. Purchased Power – ($32,390).</u>

Again, with the purchase of water from SNHRWP, and some of the existing wells being retired, the Company anticipates a reduction in purchased power costs. During the test year, the Company incurred $219,181. After analyzing the various pump stations, the Company anticipates a $32,390 reduction in purchased power costs.

<u>7. Pumping Expenses – $0.</u>

Again, with the purchase of water from SNHRWP, and some of the existing wells being retired, the Company anticipates a reduction in pumping expenses associated with those pump stations, however, the Company also anticipates an increase in pumping expenses associated with pumping the water through the Company system to both its customers and Plaistow. As such, overall, the Company believes that there will be a net zero change in pumping expenses.

<u>8. Treatment Expenses – $0.</u>

Again, with the purchase of water from SNHRWP, and some of the existing wells being retired, the Company anticipates a reduction in treatment expenses associated with those pump stations. However, the Company also anticipates an increase in treatment expenses associated with treating the water from SNHRWP. As such, overall, the Company believes that there will be a net zero change in treatment expenses.

9. Wages - $147,721.

During 2020 the Company added a new office person and a new field person. Also, there were some changes in both the office and field personal, which impacted wages. The projected 2020 wages are estimated to be $524,153. The 2019 actual test wages amounted to $376,432, resulting in a pro forma adjustment of $147,721.

10. Payroll Taxes - $11,301.

With an increase in wages, there is a related increase in payroll taxes. The Company applied the FICA tax rate of 7.65% to the increase in wages of $147,721 to determine a payroll tax pro forma adjustment of $11,301.

11. Benefits – 401k, Health Ins & Life Ins - $22,862.

With a change in employees, there were changes in benefits. The projected 2020 benefits are estimated to be $57,753. The 2019 actual test benefits amounted to $34,711, resulting in a pro forma adjustment of $22,862.

12. Management Agreement - $8,458.

The Management / Service / Rental Agreement automatically renewed from year to year (until and unless notice is given). The agreement provides for a 5% recurring annual increase. As such, the pro forma adjustment reflects the 5% annual increase.

13. Outside Services – Legal and Accounting Expenses associated with CIAC

Tax Review – ($25,783).

The Company hired Sheehan Phinney Bass + Green to review its options with respect to potentially avoiding the CIAC tax. Sheehan Phinney Bass + Green considered grandfathering, charitable entity and reallocation of grant and loan funds. Regrettably, none of the options proved viable. The Company incurred $38,675 during the test year. The Company proposes to reduce such expenses by $25,783, effectively allowing the Company to recover its costs over three years.

14. Outside Services - Audit Expenses - 2,000.

The 2019 test year has no audit expenses. In anticipation of a PUC audit, the Company projects that it will incur $6,000 of audit related expenses. The Company proposes to recover such projected expenses over 3 years, resulting in a pro forma adjustment of $2,000.

Total pro forma adjustments to operating and maintenance expenses amount to $647,930.

Depreciation Expenses

15. Depreciation Expenses – ½ Depr. on 2019 Additions to Plant - $19,670.

In 2019 the Company recorded $19,670 of depreciation expenses on 2019 additions to plant. This amount represents a half year depreciation on such assets. Pro forma adjustment 15 represents a half year depreciation so that the test year can fully reflect depreciation on the 2019 additions.

16. Depreciation Expenses – Atkinson Tank - $41,081.

The test year has no depreciation expense associated with the Atkinson Tank. A full year depreciation expense on the Atkinson Tank amounts to $41,081. See Schedule 3D for the plant by account and the calculation of depreciation expenses.

17. Depreciation Expenses – SNHRWP - $257,458.

The test year has no depreciation expense associated with the SNHRWP. A full year depreciation expense on the SNHRWP amounts to $257,458. See Schedule 3E, Page 1 of 3, for the plant by account and the calculation of depreciation expenses.

18. Depreciation Expenses – Other Projects - $9,815.

The test year has no depreciation expense associated with the Other Projects. A full year depreciation expense on the Other Projects amounts to $9,815. See Schedule 3F for the plant by account and the calculation of depreciation expenses.

Total pro forma adjustments to depreciation expenses amount to $328,024.

Amortization of CIAC

19. Amortization of CIAC - ½ Amort on 2019 Adds to CIAC Plant - $1,504.

In 2019 the Company recorded $1,504 of amortization of CIAC on 2019 contributed additions to plant. This amount represents a half year amortization of CIAC on such assets. Pro forma adjustment 19 represents a half year amortization of CIAC so that the test year can fully reflect amortization of CIAC on the 2019 contributed additions.

20. Amortization of CIAC – Atkinson Tank - $21,978.

The test year has no amortization of CIAC associated with the Atkinson Tank. A full year amortization of CIAC on the Atkinson Tank amounts to $21,978. See Schedule 3D for the CIAC by account and the calculation of amortization of CIAC.

21. Amortization of CIAC – SNHRWP - $172,325.

The test year has no amortization of CIAC associated with the SNHRWP. A full year amortization of CIAC on the SNHRWP amounts to $172,325. See Schedule 3E, Page 2 of 3, for the CIAC by account and the calculation of amortization of CIAC.

22. Amortization Expense – Other - $0

As indicated in Adjustments 29 & 38, the Company proposes to transfer the net book value of retired plant associated with its Woodland Pond and Jesse Page pump stations from plant in service to miscellaneous deferred debits. While the Company could amortize such plant, the Company proposes to allow the existing depreciation to continue.

Taxes other than income

23. Taxes other than Income - $79,313.

With the addition of plant associated with the Atkinson Tank, the SNHRWP and Other Plant, the Company anticipates that both state and local property taxes will increase. See Schedules 3D, 3E (page 3 of 3) and 3F for the calculation of the increase in state and local property taxes.

Income Taxes

24. State Business Taxes - $35,005.

With the increase in revenue, and the increase in rate base, state business taxes are expected to increase. See Schedule 1B for the calculation of state business taxes.

25. Federal Income Taxes - $95,749.

With the increase in revenue, and the increase in rate base, federal income taxes are expected to increase. See Schedule 1B for the calculation of the federal income taxes.

26. Provision for Deferred Taxes - $53,655.

In 2020 the Company expects to recognize the deferred tax expense associated with the book / tax timing difference related to recognizing revenue associated with the CIAC on the Atkinson Tank and SNHRWP. The Company anticipates that CIAC of $5,504,405 will be recognized as revenue for tax purposes.

The total pro forma adjustments to expenses amount to $1,046,876.

The Company did review a number of other operating expenses, but decided that the expenses are reasonable and recurring, and provide a proper basis in which to establish future rates.

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 December 31, 2018 and 2017, respectively?

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 numerous structures, wells, pumps, tanks, mains, services, meters, vehicles, and other plant. At December 31, 2019 the Company had utility plant of $19,855,659. Since the last rate case, the Company has added approximately $3.2 million in plant. Accumulated Depreciation represents the depreciation on these same assets from the date of purchase through December 31, 2019, using a straight-line depreciation method over the estimated useful life.

The Company’s current and accrued assets amount to $585,469, including $40,520 of cash. The Company’s cash position has declined in recent years.

The Company also has deferred assets of $1,229,920 including $55,964 of unamortized debt expense, $1,163,245 of miscellaneous deferred debits and $10,711 of deferred tax assets. Miscellaneous deferred debits include $986,176 associated with the SNHRWP.

The Company’s Equity Capital amounts to $3,122,097 consisting of $16,767 of common stock, $4,054,354 of other paid in capital, and retained earnings of ($949,024). Other paid in capital increased by $400,000 in 2018 and $500,000 in

2019. The Company's negative retained earnings have been increasing in recent years due to net losses in 2018 and 2019. The Company's sole shareholder is the Christine (Lewis) Morse Revocable Family Trust of 2000. The number of shares authorized and outstanding is 300 and 100, respectively, with no par value. The Company's other long term debt outstanding amounts to $4,504,424. In 2019 the Company borrowed $590,201 from NH DES for the Atkinson Tank. The borrowing was approved in PUC Order #26,230.in Docket DW 18-138. The Company's total current and accrued liabilities amount to $337,561 including $156,209 accounts payable to Lewis Builders, an affiliated company. The Company's total deferred credits amount to $966,258 including $898,404 of state funding for the Atkinson Tank. The Company has net contribution in aid of construction of $5,366,446. 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) - (m) show the actual balances of the rate base items as per the Company's monthly financial statements. Column (n) shows the actual 13 month average balances, except for cash working capital, which reflects the cash working capital for 2019. Column (o) shows the 2019 pro forma adjustments. Column (p) shows the pro forma 2019 balances.

The rate base consists of Utility Plant, less Accumulated Depreciation, Material & Supplies, Miscellaneous Deferred Debits, Accumulated Deferred Income Taxes –

Assets, Accumulated Deferred Income Taxes – Liabilities, Contributions in Aid of Construction and Accumulated Amortization of CIAC plus Cash Working Capital. The actual 13 month average rate base amounts to $5,237,477. The Company made a number of adjustments to rate base. Eight of the adjustments (#s 26, 31, 36, 37, 39, 41, 42 and 45) pertain to adjusting the 13 month average balances to the year end balance. In order to properly reflect rate base, all of its plant and plant related items at year end are completed and providing service to customers. A substantial part of the plant is non revenue producing. Fully reflecting plant and the related items in rate base will allow for full recovery of the assets. Two of the adjustments (#32 and #46) pertain to adjusting the year end balance for the additional half year of depreciation and amortization of CIAC. These adjustments pertain to test year expense adjustments for depreciation (#16) and amortization of CIAC (#20). Since the Company has proposed adjusting depreciation expense and amortization of CIAC to reflect a full year's expense, the Company also has to adjust accumulated depreciation and accumulated amortization of CIAC for a like amount. Adjustment 27 is the adjustment to Plant in Service for the Atkinson Tank. See Schedule 3D. Adjustment 28 is the adjustment to Plant in Service for the SNHRWP. See Schedule 3E, Page 1 of 3. Adjustment 29 is the adjustment to Plant in Service for the transfer of the net book value of the retired plant associated with the Wood land pond and Jesse Page. Also see adjustment 38. Adjustment 30 is the adjustment to Plant in

Service for the Other Projects, specifically Angle Pond and Dearborn Ridge. See Schedule 3F. Adjustment 33 is the adjustment to Accumulated Depreciation for the Atkinson Tank. See Schedule 3D. Adjustment 34 is the adjustment to Accumulated Depreciation for the SNHRWP. See Schedule 3E, Page 2 of 3. Adjustment 35 is the adjustment to Accumulated Depreciation for the Other Projects, specifically Angle Pond and Dearborn Ridge. See Schedule 3F. Adjustment 38 is the adjustment to Miscellaneous Deferred Debits for the transfer of the net book value of the retired plant associated with the Woodland Pond and Jesse Page. Also see adjustment 29. Adjustment 40 is the deferred tax asset related to the book / tax timing difference of CIAC. Adjustment 43 is the adjustment to CIAC for the Atkinson Tank. See Schedule 3D. Adjustment 44 is the adjustment to CIAC for the SNHRWP. See Schedule 3E, Page 2 of 3. Adjustment 47 is the adjustment to Accumulated Amortization of CIAC for the Atkinson Tank. See Schedule 3D. Adjustment 48 is the adjustment to Accumulated Amortization of CIAC for the SNHRWP. See Schedule 3E, Page 2 of 3. The final adjustment to rate base is the adjustment to cash working capital. Working capital is determined by utilizing a percentage that represents the lag between the time in which the Company bills its customers and receives the cash from such billing and the time that it pays for expenses to provide services. It is derived by applying 45/365 days or 12.33% to operating expenses. The computation of working capital is shown on schedule 3G. Please note that

Schedules 3D, 3E and 3F support various adjustments pertaining to the Atkinson Tank, the SNHRWP and Other Plant.

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

A. The Company's overall rates of return are 5.78% and 5.56% for 2019 actual and 2019 pro formed, respectively. It is derived from the weighted average cost rates associated with actual and pro formed long term debt and equity. The Company's capital structure consists of Equity and Debt Capital. The Company has no short-term debt.

Its Actual Equity Capital consists of $16,767 of Common Stock, $4,054,354 of Other Paid in Capital, and Retained Earnings of ($949,024). The Company has $4,504,424 of long-term debt at year end. See Schedule 5A. The Company's overall capital structure is more weighted to debt. In 2019 and 2018 the owner contributed $500,000 and $400,000 of other paid in capital. The proposed rate increase should improve earning, increase retained earnings, and increase the equity portion of the capital structure. In 2020 the Company's owner has put in another $300,000 of other paid in capital.

Q. Would you please explain Schedule 5A and 5B entitled "Actual Long Term Debt" and "Pro forma Long Term Debt" respectively.

A. Schedule 5A shows the date of the notes, the borrower and lender, the original note amount, note term, interest rate, outstanding balance at 12/31/19 and 12/31/18, the 2019 interest expense, and cost rate. The total outstanding balance at 12/31/19 is $4,504,424. The total 2019 interest expense is $129,880. The total actual debt cost rate is 2.88%.

Schedule 5B utilizes the same data as schedule 5A. The Company made no changes to the actual outstanding debt balance at 12/31/19, however, it did adjust the outstanding balance for three new loans, namely $856,578 from the NH DGWTF for the Atkinson Tank, $1,102,356 from the NHDWGT for the SNHRWP CIAC Tax and $392,500 from a yet to be determined source for the MSDC fee. The Company also adjusted the actual interest expense to include the additional interest on the three new loans. After making such adjustments, the pro forma total debt cost rate is 2.98%.

Q. What is the Company using for the cost of common equity?

A. The Company is using the agreed upon methodology that is subject to PUC Docket IR 19-005 Rate of Return for Small Water Companies. The Company is utilizing the PUC Staff provided baseline ROE of 9.69%, plus rate case expense savings added of .50%, plus a capital structure adder of .00%, plus an exemplary performance adder of .25%. Please note that the Company was within an "acceptable" capital structure with equity of 40.94% percent at December 31, 2019. With the addition of substantial new pro forma debt, the capital structure falls just outside the "acceptable" level of equity 34.62%. With respect to "exemplary performance," the Company believes that it has earned the 50 basis points but given the size of the investment and rate increase, it is requesting 25 basis points.

Q. What is the pro forma weighted average cost rate?

A. The pro forma weighted average cost rate is 5.56%

Q. Please explain the Report of Proposed Rate Changes.

A. The Report of Proposed Rate Changes shows the rate class, the effect of the revenue change, the number of customers, the authorized present revenue, the proposed revenue, the proposed change amount, and percentage. The proposed change amount is $1,523,330 or 77.41%. The rates will be developed based on Cost of Service Analysis.

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

A. Yes, the Company is requesting a permanent revenue increase of $1,523,330, effective December 15, 2020. The permanent revenue increase of $1,523,330 enables the Company to earn a 5.56% pro forma rate of return on its investment, reflected in a pro forma rate base of $9,966,564. The average annual amount for a general customer will increase from $557.00 to $998.17 an increase of $431.17 or 77.41%.

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

A. Yes. I would like to address WICA and temporary rates.

Water Infrastructure and Conservation Adjustment ("WICA").

The Company is proposing a Water Infrastructure and Conservation Adjustment

("WICA"). The purpose of the WICA is to recover the fixed costs (return, depreciation, property taxes and income taxes) of certain PUC approved non-revenue producing system production and customer meters purchased, installed, and placed in service between rate cases. The Company proposes to expend $79,500 in the twelve months ended 9/30/21. The initial surcharge, effective 1/1/22, will be based on the actual costs incurred during the twelve months ended 9/30/21. The Company proposes a monthly surcharge per customer of $0.26. Please see WICA testimony and supporting schedules.

<u>Temporary Rates</u>

The Company is requesting a temporary revenue increase of $301,059, effective December 15, 2020. The permanent revenue increase of $301,059 enables the Company to earn a 5.78% pro forma rate of return on its investment, reflected in a pro forma rate base of $5,273,474. The average annual amount for a general customer will increase from $557.00 to $642.21 an increase of $85.21 or 15.30%. Please see temporary rate filing.

Q. Is there anything further 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 permanent and temporary rate filings and pursuit of the rate increase during the rate proceeding. The Company will also utilize the services, i.e., management, legal, accounting, 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. Does this conclude your testimony?

A. Yes.