Hampstead Area Water Company

before the

New Hampshire Public Utilities Commission

DW 20-117

Direct Testimony of Stephen P. St. Cyr for Temporary Rates

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 temporary rate case exhibits, supporting schedules and written testimony.

Q. Are there specific things prompting the temporary rate filing?

A. Yes. HAWC did not earn its authorized rate of return during the test year. As such, part of the rate application is simply to allow HAWC to recover its costs and earn its PUC approved rates of return. Second, HAWC incurred normal replacement of plant and/or new plant during the test year. Third, HAWC has incurred normal increases in expenses. Finally, HAWC's last rate increase was approved in DW 17-118, based on a proformed 2016 test year. With the proposed increase in temporary rates and revenues, HAWC should be able to recover its investments, cover its expenses, earn its PUC approved rate of return on its investment and continue to provide service to its customers at fair and reasonable rates.

Q. Please provide an overview of the temporary rate filing.

A. The temporary rate filing is the same as the permanent rate filing, except for the elimination of certain pro forma adjustments that are more appropriately reviewed as part of the permanent rate filing. HAWC adjusted the proposed revenue downward. It eliminated most of expense adjustments. It also eliminated all of rate base adjustments. In addition, HAWC eliminated the pro forma capital structure and rate of return. With the elimination of the various adjustments, HAWC believes that the temporary increase in rates / revenues is fair, reasonable and manageable. It allows HAWC to earn its PUC approved rate of return on its prudently incurred investments and to pay for its necessary operating expenses. The proposed temporary increase will enable HAWC to continue providing good water with good pressure and reliability at a good price.

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

A. No.

Q. Are you familiar with the pending temporary 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 temporary rate 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 temporary rate 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 no adjustments to its rate base. The Company made no adjustments to the actual rate of return and made no adjustments to its actual capital structure. The Company is utilizing a 5.78% rate of return including its 9.95 authorized return on equity. As such, the actual rate of return of 5.78%, when multiplied to actual rate base of $5,237,474, results in an operating income requirement of $302,531. The Company increased its revenue by $301,059 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 temporary rate filing but decided not to make any adjustments.

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 only one pro forma adjustment to revenue.

Operating Revenues

1. Operating Revenues due to Sale of Water to Plaistow - $0.

2. Operating Revenues needed to earn return and recover expenses - $301,059.

The pro forma adjustment to revenue represents the additional revenue of $301,059 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. No.

Operating and Maintenance Expenses

3. Purchased Water for Company - $0.

4. Purchased Water for Plaistow - $0.

5. Well Expenses – ($0).

6. Purchased Power – ($0).

7. Pumping Expenses – $0.

8. Treatment Expenses – $0.

9. Wages - $0.

10. Payroll Taxes - $0.

11. Benefits – 401k, Health Ins & Life Ins - $0.

12. Management Agreement - $0.

13. Outside Services – Legal and Accounting Expenses associated with CIAC Tax Review – ($0).

14. Outside Services - Audit Expenses - &0.

Total pro forma adjustments to operating and maintenance expenses amount to $0.

Depreciation Expenses

15. Depreciation Expenses – ½ Depr on 2019 Additions to Plant - $0.

16. Depreciation Expenses – Atkinson Tank - $0.

17. Depreciation Expenses – SNHRWIP - $0.

18. Depreciation Expenses – Other Projects - $0.

Total pro forma adjustments to depreciation expenses amount to $0.

Amortization of CIAC

19. Amortization of CIAC - ½ Amort on 2019 Adds to CIAC Plant - $0.

20. Amortization of CIAC – Atkinson Tank - $0.

21. Amortization of CIAC – SNHRWIP - $0.

22. Amortization Expense – Other - $0

Taxes other than income

23. Taxes other than Income - $0.

Income Taxes

24. State Business Taxes - $19,496.

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 - $56,710.

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 - $0.

The total pro forma adjustments to income taxes amount to $76,206.

The total pro forma adjustments to operating expenses amount to $76,206.

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 SNHRWIP.

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 Development, Inc, 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 Development, Inc.

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 $5,237,474. The Company made no adjustments to rate base.

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

A. The Company's overall rates of return are 5.78% and 5.78% 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 entitled "Actual Long Term Debt."

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%.

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

A. The Company is using the PUC approved return on equity of 9.95%.

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 $301,059 or 15.30%.

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

A. Yes, the Company is requesting a temporary revenue increase of $301,059 effective December 15, 2020. The temporary revenue increase of $301,059 enables the Company to earn a 5.78% actual rate of return on its investment, reflected on a actual rate base of $5,237,474. The average annual amount for a general customer will increase from $557.00 to $642.21 an increase of $85.21 or 15.30%.

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

A. No.

Q. Does this conclude your testimony?

A. Yes.