

**Docket No. DW 20-117  
Hampstead Area Water Company, Inc.  
Rate Proceeding**

**TAB 8**

Testimony of Stephen P. St. Cyr

Puc 1604.02(a)(3)

1                           The Hampstead Area Water Company, Inc.

2                                           before the

3                           New Hampshire Public Utilities Commission

4                                           DW 20-117

5                           Direct Testimony of Stephen P. St. Cyr

6 Q.     Please state your name and address.

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

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

11 A.     I am presently employed by St. Cyr & Associates (“SPS&A”), which primarily  
12        provides accounting, management, regulatory and tax services. SPS&A devotes a  
13        significant portion of the practice to serving utilities. SPS&A has a number of  
14        regulated water and sewer utilities among its clientele. I have prepared and  
15        presented a number of rate case filings before the New Hampshire Public Utilities  
16        Commission (“PUC”). Prior to establishing SPS&A, I worked in the utility  
17        industry for 16 years, holding various managerial accounting and regulatory  
18        positions. I have a Business Administration degree with a concentration in  
19        accounting from Northeastern University in Boston, Ma. I obtained my CPA  
20        certificate in Maryland (but not certified in NH due to different certificate  
21        requirements).

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

3 A. Yes. SPS&A assists HAWC in its year end closing and preparation of financial  
4 statement and tax returns. SPS&A assists HAWC in various regulatory filings  
5 including expansion of its franchise, financing of construction projects and  
6 adjusting rates. SPS&A has been engaged to prepare the various rate case  
7 exhibits, supporting schedules and written testimony.

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to support HAWC’s efforts to increase rates to its  
10 customers to reflect in rates its additions to plant and its expenses adjusted for  
11 known and measurable changes.

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

13 A. It has been approximately 3 years since its last rate case (DW 17-118). Since that  
14 time, HAWC has increased its franchise areas and increased its plant. In  
15 2019/2020 the Company constructed a one million gallon water storage tank in its  
16 Atkinson and Hampstead water system. The storage tank went into service in  
17 early May 2020. The total actual cost of the tank amounted to \$1,573,869, of  
18 which the State of NH provides a grant of 62.5% of \$983,668, resulting in a net  
19 cost to the Company of \$590,201 plus the related taxes on the contribution in aid  
20 of construction (“CIAC”) of \$266,377. The total costs of \$856,578 were  
21 borrowed from the NH Drinking Ground and Water Trust Fund” (“DGWTF”).

1 The borrowing was approved by the Commission in Order No. 26,230 dated  
2 March 29, 2019 in DW 18-138. The Company also began construction on its  
3 portion of the Southern New Hampshire Regional Water Project (“SNHRWP”)  
4 including appurtenant infrastructure and improvements to its core water system.  
5 The SNHRWP will provide water from Manchester through Derry and Salem to  
6 the HAWC core system and ultimately to Plaistow. The SNHRWP is projected to  
7 be placed in service beginning in 2020. The total cost of the SNHRWP is  
8 projected to amount to \$4,963,237, of which the State of NH is projected to  
9 contribute \$4,070,737. While the costs are estimated, all of the plant will be  
10 known and measureable during the course of the proceeding. As such, the  
11 Company proposes to replace the estimated costs with actual costs when such  
12 costs become known and measureable. The contribution of \$4,070,737 results in  
13 related projected taxes of \$1,102,356. The projected taxes of \$1,102,356 are  
14 being borrowed from the DGWTF. The borrowing was approved by the  
15 Commission in Order No. 26,407 dated September 28, 2020 in DW 19-147. The  
16 Company has also taken advantage of low interest rates provided by the NH  
17 DGWTF. The Company has also accepted additional paid in capital to improve  
18 cash flow, pay for capital replacements / improvements and better balance the  
19 capital structure. HAWC’s shareholder has a long history of contributing  
20 additional paid in capital including \$400,000, \$400,000 and \$500,000 in 2017,  
21 2018 & 2019 respectively. Also, in 2019, HAWC’s shareholder committed to

1 contributing a total of at least \$750,000 to HAWC during 2019 - 2021. With the  
2 \$500,000 contributed in 2019 and the recent contribution of \$300,000 in 2020,  
3 HAWC's shareholder has already exceeded the \$750,000 contribution of  
4 additional paid in capital. At 12/31/19 the capital structure consisted of 41%  
5 equity and 59% debt, a reasonable balance. With the additional debt financing  
6 associated with the Atkinson tank and the SNHRWP, HAWC's capital structure is  
7 projected to consist of 35% equity and 65% debt. The Company is also utilizing  
8 the PUC Staff provided baseline return of equity ("ROE") of 9.69% plus a .50%  
9 adder for rate case expense savings plus a .25% for exemplary performance. With  
10 the increase in franchise areas, both customers and revenues increase. Similarly,  
11 expenses increase. Also, the Company expects a net increase in expenses  
12 associated with both the Atkinson tank and the SNHRWP. The Company  
13 believes that the proposed increase in rates / revenues is fair, reasonable, and  
14 manageable and allows the Company to earn a fair and reasonable rate of return  
15 on its prudently incurred investments and pay for its necessary operating  
16 expenses. The proposed increase will enable the Company to continue to provide  
17 good quality water with good pressure, good reliability, and a good price.

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

20 A. No.

21 Q. Are you familiar with the pending rate application of the Company and with the

1 various exhibits submitted as Schedules 1 through 5 inclusive, with related pages  
2 and attachments?

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

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

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

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

9 A. Yes. This schedule summarizes the supporting schedules. The actual revenue  
10 deficiency for the test period amounts to \$224,853. It is based upon a 13 month  
11 average balance for 2019 of \$5,237,474 as summarized in Schedule 3. The  
12 Company is utilizing its actual rate of return of 5.78% for the actual test year.  
13 The actual rate of return of 5.78%, when multiplied by the rate base of  
14 \$5,237,474, results in an operating income requirement of \$302,531. As shown  
15 on Schedule 1, the actual net operating income for the test period was \$77,678.  
16 The operating income requirement less the net operating income results in an  
17 operating income deficiency of \$224,853. The tax effect on the operating income  
18 deficiency is \$0, resulting in a revenue deficiency of \$224,853.  
19 The pro forma revenue deficiency for the test year amounts to \$0. The Company  
20 made various adjustments to its rate base, related to SNHRWP, the Atkinson tank,  
21 other plant and the 13 month average balances to 2019 year end balances. The

1 Company adjusted the rate of return to reflect its pro forma capital structure, its  
2 pro forma cost of debt, and an 10.44% cost of equity. The net of the adjustments  
3 to the capital structure and the adjustments to the cost rates results in a proposed  
4 rate of return of 5.56%. As such, the proposed rate of return of 5.56%, when  
5 multiplied by the pro forma rate base of \$9,966,564, results in an operating  
6 income requirement of \$554,132. The Company increased its revenue by  
7 \$1,523,330 in order to allow the Company to recover its expenses and to earn a  
8 fair and reasonable return on its investment.

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

11 A. The first column (column b) of Schedule 1 shows the actual operating results of  
12 the Company from January 1, 2019 through December 31, 2019. The Company  
13 has filed its 2019 NHPUC Annual Report, which further supports the rate filing.  
14 During the twelve months ended December 31, 2019, the Company operating  
15 revenues amounted to \$2,325,428, an increase of \$281,950 or 13.80%. The  
16 increase in operating revenue in 2019 was due to the increase in the number of  
17 customers and in the number of gallons sold. The Company customer base  
18 continues to grow. The Company had 3,857 customers as of December 31, 2019.  
19 The Company's operating expenses consist of operation and maintenance  
20 expenses, depreciation and amortization expenses, and taxes. The total 2019  
21 operating expenses amounted to \$2,247,750, an increase of \$190,302 or 9.25%.

1 Operation and maintenance expenses increased \$162,998, primarily due to  
2 increased administrative and general expenses, transmission and distribution  
3 expenses and customer accounts expenses. Depreciation expenses increased by  
4 \$31,841. The increases were partially offset by lower taxes other than income.  
5 The Company's net operating income amounted to \$77,678.

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

9 Q. Please explain each of the pro forma adjustments made to revenue as shown on  
10 Schedule 1, in the second column (column c) and further supported on Schedule  
11 1A.

12 A. The Company made two pro forma adjustments to revenue.

13 Operating Revenues

14 1. Operating Revenues due to Sale of Water to Plaistow - \$175,180.

15 The pro forma adjustment to revenue represents the additional revenue of  
16 \$175,180 due to the sale of water to Plaistow as part of the SNHRWP. The  
17 Company will be purchasing 100,000 gallons of water a day from SNHRWP and  
18 reselling it to Plaistow. The prices have been set by NHDES as a result of a cost  
19 of service done for NHDES. The Company will be purchasing at \$3.05 per ccf  
20 and reselling at \$3.59 per ccf. The sale to Plaistow increases revenue by  
21 \$175,180.



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

2           The pro forma adjustment to revenue represents the additional revenue of  
3           \$1,348,150 needed to recover the increase in its pro forma expenses and to earn a  
4           reasonable return on its pro forma rate base.

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

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

8    Operating and Maintenance Expenses

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

10          In addition to purchasing water from SNHRWP to resell to Plaistow, the  
11          Company is also purchasing 250,000 gallons a day from Manchester to serve its  
12          core customers in Hampstead and Atkinson. Again, the Company will be  
13          purchasing the water at \$3.05 per ccf, resulting in a purchased water expense of  
14          \$372,075.

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

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

19          5. Well Expenses – (\$7,144).

20          With the purchase of water from SNHRWP, some of the existing wells will be  
21          retired. With the retirement of the some of the existing wells, the Company

1 anticipates a 20% reduction in well expenses. During the test year, the Company  
2 incurred \$35,720. A 20% reduction amounts to (\$7,144).

3 6. Purchased Power – (\$32,390).

4 Again, with the purchase of water from SNHRWP, and some of the existing wells  
5 being retired, the Company anticipates a reduction in purchased power costs.

6 During the test year, the Company incurred \$219,181. After analyzing the  
7 various pump stations, the Company anticipates a \$32,390 reduction in purchased  
8 power costs.

9 7. Pumping Expenses – \$0.

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

16 8. Treatment Expenses – \$0.

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

1 treatment expenses.

2 9. Wages - \$147,721.

3 During 2020 the Company added a new office person and a new field person.

4 Also, there were some changes in both the office and field personal, which  
5 impacted wages. The projected 2020 wages are estimated to be \$524,153. The  
6 2019 actual test wages amounted to \$376,432, resulting in a pro forma adjustment  
7 of \$147,721.

8 10. Payroll Taxes - \$11,301.

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

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

13 With a change in employees, there were changes in benefits. The projected 2020  
14 benefits are estimated to be \$57,753. The 2019 actual test benefits amounted to  
15 \$34,711, resulting in a pro forma adjustment of \$22,862.

16 12. Management Agreement - \$8,458.

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

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

1        Tax Review – (\$25,783).

2        The Company hired Sheehan Phinney Bass + Green to review its options with  
3        respect to potentially avoiding the CIAC tax. Sheehan Phinney Bass + Green  
4        considered grandfathering, charitable entity and reallocation of grant and loan  
5        funds. Regrettably, none of the options proved viable. The Company incurred  
6        \$38,675 during the test year. The Company proposes to reduce such expenses by  
7        \$25,783, effectively allowing the Company to recover its costs over three years.

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

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

13       Total pro forma adjustments to operating and maintenance expenses amount to  
14       \$647,930.

15       Depreciation Expenses

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

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

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

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

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

6 The test year has no depreciation expense associated with the SNHRWP. A full  
7 year depreciation expense on the SNHRWP amounts to \$257,458. See Schedule  
8 3E, Page 1 of 3, for the plant by account and the calculation of depreciation  
9 expenses.

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

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

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

15 Amortization of CIAC

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

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

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

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

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

7           The test year has no amortization of CIAC associated with the SNHRWP. A full  
8           year amortization of CIAC on the SNHRWP amounts to \$172,325. See Schedule  
9           3E, Page 2 of 3, for the CIAC by account and the calculation of amortization of  
10          CIAC.

11          22. Amortization Expense – Other - \$0

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

17          Taxes other than income

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

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

1 increase in state and local property taxes.

2 Income Taxes

3 24. State Business Taxes - \$35,005.

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

6 25. Federal Income Taxes - \$95,749.

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

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

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

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

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

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

21 A. Yes, it does.

1 Q. Does column e and f represent the revenue and expenses for the twelve months  
2 ended December 31, 2018 and 2017, respectively?

3 A. Yes, it does.

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

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

7 Utility Plant consists of numerous structures, wells, pumps, tanks, mains, services,  
8 meters, vehicles, and other plant. At December 31, 2019 the Company had utility  
9 plant of \$19,855,659. Since the last rate case, the Company has added  
10 approximately \$3.2 million in plant. Accumulated Depreciation represents the  
11 depreciation on these same assets from the date of purchase through December  
12 31, 2019, using a straight-line depreciation method over the estimated useful life.

13 The Company’s current and accrued assets amount to \$585,469, including  
14 \$40,520 of cash. The Company’s cash position has declined in recent years.  
15 The Company also has deferred assets of \$1,229,920 including \$55,964 of  
16 unamortized debt expense, \$1,163,245 of miscellaneous deferred debits and  
17 \$10,711 of deferred tax assets. Miscellaneous deferred debits include \$986,176  
18 associated with the SNHRWP.

19 The Company’s Equity Capital amounts to \$3,122,097 consisting of \$16,767 of  
20 common stock, \$4,054,354 of other paid in capital, and retained earnings of  
21 (\$949,024). Other paid in capital increased by \$400,000 in 2018 and \$500,000 in



1 2019. The Company's negative retained earnings have been increasing in recent  
2 years due to net losses in 2018 and 2019. The Company's sole shareholder is the  
3 Christine (Lewis) Morse Revocable Family Trust of 2000. The number of shares  
4 authorized and outstanding is 300 and 100, respectively, with no par value. The  
5 Company's other long term debt outstanding amounts to \$4,504,424. In 2019 the  
6 Company borrowed \$590,201 from NH DES for the Atkinson Tank. The  
7 borrowing was approved in PUC Order #26,230.in Docket DW 18-138. The  
8 Company's total current and accrued liabilities amount to \$337,561 including  
9 \$156,209 accounts payable to Lewis Builders, an affiliated company. The  
10 Company's total deferred credits amount to \$966,258 including \$898,404 of state  
11 funding for the Atkinson Tank. The Company has net contribution in aid of  
12 construction of \$5,366,446. The Company and its customers continue to benefit  
13 from CIAC, primarily from Lewis Builders.

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

15 A. Columns (b) - (m) show the actual balances of the rate base items as per the  
16 Company's monthly financial statements. Column (n) shows the actual 13 month  
17 average balances, except for cash working capital, which reflects the cash  
18 working capital for 2019. Column (o) shows the 2019 pro forma adjustments.  
19 Column (p) shows the pro forma 2019 balances.

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

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

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

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

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

4 A. The Company’s overall rates of return are 5.78% and 5.56% for 2019 actual and  
5 2019 pro formed, respectively. It is derived from the weighted average cost rates  
6 associated with actual and pro formed long term debt and equity. The Company’s  
7 capital structure consists of Equity and Debt Capital. The Company has no short-  
8 term debt.

9 Its Actual Equity Capital consists of \$16,767 of Common Stock, \$4,054,354 of  
10 Other Paid in Capital, and Retained Earnings of (\$949,024). The Company has  
11 \$4,504,424 of long-term debt at year end. See Schedule 5A. The Company’s  
12 overall capital structure is more weighted to debt. In 2019 and 2018 the owner  
13 contributed \$500,000 and \$400,000 of other paid in capital. The proposed rate  
14 increase should improve earning, increase retained earnings, and increase the  
15 equity portion of the capital structure. In 2020 the Company’s owner has put in  
16 another \$300,000 of other paid in capital.

17 Q. Would you please explain Schedule 5A and 5B entitled “Actual Long Term Debt”  
18 and “Pro forma Long Term Debt” respectively.

19 A. Schedule 5A shows the date of the notes, the borrower and lender, the original  
20 note amount, note term, interest rate, outstanding balance at 12/31/19 and  
21 12/31/18, the 2019 interest expense, and cost rate. The total outstanding balance

1 at 12/31/19 is \$4,504,424. The total 2019 interest expense is \$129,880. The total  
2 actual debt cost rate is 2.88%.

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

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

12 A. The Company is using the agreed upon methodology that is subject to PUC  
13 Docket IR 19-005 Rate of Return for Small Water Companies. The Company is  
14 utilizing the PUC Staff provided baseline ROE of 9.69%, plus rate case expense  
15 savings added of .50%, plus a capital structure adder of .00%, plus an exemplary  
16 performance adder of .25%. Please note that the Company was within an  
17 “acceptable” capital structure with equity of 40.94% percent at December 31,  
18 2019. With the addition of substantial new pro forma debt, the capital structure  
19 falls just outside the “acceptable” level of equity 34.62%. With respect to  
20 “exemplary performance,” the Company believes that it has earned the 50 basis  
21 points but given the size of the investment and rate increase, it is requesting 25

1 basis points.

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

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

4 Q. Please explain the Report of Proposed Rate Changes.

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

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

12 A. Yes, the Company is requesting a permanent revenue increase of \$1,523,330,  
13 effective December 15, 2020. The permanent revenue increase of \$1,523,330  
14 enables the Company to earn a 5.56% pro forma rate of return on its investment,  
15 reflected in a pro forma rate base of \$9,966,564. The average annual amount for a  
16 general customer will increase from \$557.00 to \$998.17 an increase of \$431.17 or  
17 77.41%.

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

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

20 Water Infrastructure and Conservation Adjustment (“WICA”).

21 The Company is proposing a Water Infrastructure and Conservation Adjustment

1 (“WICA”). The purpose of the WICA is to recover the fixed costs (return,  
2 depreciation, property taxes and income taxes) of certain PUC approved non-  
3 revenue producing system production and customer meters purchased, installed,  
4 and placed in service between rate cases. The Company proposes to expend  
5 \$79,500 in the twelve months ended 9/30/21. The initial surcharge, effective  
6 1/1/22, will be based on the actual costs incurred during the twelve months ended  
7 9/30/21. The Company proposes a monthly surcharge per customer of \$0.26.  
8 Please see WICA testimony and supporting schedules.

9 Temporary Rates

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

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

17 A. Yes, the Company has engaged the services of Stephen P. St. Cyr & Assoc. The  
18 Company has agreed to an hourly fee of \$140.00 (plus out of pocket costs) for  
19 work performed in preparation of the permanent and temporary rate filings and  
20 pursuit of the rate increase during the rate proceeding. The Company will also  
21 utilize the services, i.e., management, legal, accounting, etc., of its affiliate, Lewis

1 Builders Development, Inc., in the preparation of the rate filing and throughout  
2 the rate proceeding. The Company will make every effort to minimize its rate  
3 case expenses.

4 Q. Does this conclude your testimony?

5 A. Yes.