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9 Direct Testimony for Permanent Rates of Stephen P. St. Cyr in DW 20-187

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6
7 **INTRODUCTION**

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. The Company devotes a significant
19 portion of the practice to serving utilities. The Company has a number of
20 regulated water utilities among its clientele. I have prepared and presented a
21 number of rate case filings before the New Hampshire Public Utilities
22 Commission. Prior to establishing St. Cyr & Associates, I worked in the utility
23 industry for 16 years, holding various managerial accounting and regulatory
24 positions. I have a Business Administration degree with a concentration in
25 accounting from Northeastern University in Boston, Ma. I obtained my CPA
26 certificate in Maryland although I'm not able to hold myself out as a CPA due to
27 different state requirements.

28
29 Q. Is St. Cyr & Associates presently providing services to Lakes Region Water
30 Company ("LRWC" or "Company")?

31
32 A. Yes. St. Cyr & Associates prepared the various exhibits, oversaw the preparation
33 of the supporting schedules, prepared the written testimony and prepared other
34 rate case filing requirements. In addition, St. Cyr & Associates prepares the
35 Company's PUC Annual Report.

36
37 Q. Are you familiar with the pending rate application of the Company and with the
38 various exhibits submitted as Schedules 1 through 4 inclusive, with related
39 schedules?

40
41 A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of
42 the Company.

43
44
45
46

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

8
9 A. The Company respectfully requests that the Commissioners approve the
10 consolidation of rates to all of the Company's water systems including Dockham
11 Shores and Wildwood Water. If the Commissioners approve the consolidation of
12 rates, the Company respectfully requests that the Commissioners also approve an
13 increase in revenues of \$260,172 or 19.69% from the Company's 1,812
14 unmetered and metered customers.

15
16 If the Commissioners do not approve the consolidation of rates, the Company
17 respectfully requests that the Commissioners approve an increase in revenues of
18 \$144,913 or 11.53%, \$57,211 or 148.10% and \$54,737 or 213.44% from the
19 Company's LRWC (w/o DS & WW), DS & WW, respectively.

20
21 Q. What is the test year that the Company is using in this filing?

22
23 A. The Company is utilizing the twelve months ended December 31, 2019.

24
25 **RECENT DEVELOPMENTS**

26
27 Q. Before you explain the schedules, please provide a brief overview of the
28 Company and some recent developments pertaining to the Company.

29
30 A. In 2016 the NHPUC approved the Company acquisition of the assets and utility
31 franchise of the former Dockham Shores Estates Water Company serving
32 approximately 60 customers in the Town of Gilford, NH. The NHPUC also
33 authorized the Company to borrow up to \$135,000 to finance the purchase of the
34 utility assets and to make significant improvements to the water system. The
35 NHPUC further authorized the Company to submit a subsequent step adjustment
36 in the DS' revenue requirement in an amount not to exceed \$6,620, to recover the
37 approximately \$60,000 in capital improvements. On December 4, 2018 the
38 Company filed a petition with the NHPUC for a step adjustment in DS revenue of
39 \$53,894 from DS customers. The request was based on \$300,599 of total plant.
40 The Company incurred greater investment in the system due to greater need.
41 NHPUC approved an annual step increase in revenues from DS' customers of
42 \$6,620, pursuant to the previously maximum amount of the step adjustment. The
43 NHPUC further stated that "We note that the Company is not precluded from
44 filing for the additional recovery, including acquisition costs, in either a future DS
45 or LRWC rate case."
46

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7 In 2018 the NHPUC approved the Company acquisition of the assets and utility
8 franchise of the former Wildwood Water (“WW”) Company serving
9 approximately 49 customers in the Town of Albany, NH. The Company has now
10 operated WW for more than a year. The Company has determined that the
11 existing pump station is aging and in need of replacement. A new pump station
12 will provide constant pressure, adequate iron removal, larger well storage and a
13 backup generator. The proposed new pump station would include a new building,
14 generator, storage tank and treatment equipment. The Company estimated that the
15 new pump station will costs \$260,000.

16

17 Also, in 2018, the PUC established DW 18-056, an Investigation to Determine
18 Rate Effects of Federal and State Corporate Tax Reductions. In PUC Order No.
19 26,340, the PUC ordered the Company to record annual and cumulative
20 regulatory to track tax savings realized from corporate tax rate decreases. The
21 Commission also ordered LRWC to record a regulatory liability equivalent to its
22 calculated excess deferred income tax reserve. The Commission’s order was not
23 meant to, nor did it in fact, make any decision with regard to the rates to be paid
24 by LRWC’s customers. The Company appealed the PUC order to the NH
25 Supreme Court (case No. 2020-0302). In a Joint Motion for summary disposition
26 of the appeal, the parties agreed that “the Commission will establish new rates for
27 LRWC, as well as a necessary refund or credit, if any, including a reasonable
28 amortization thereof, for any past over-recovery by LRWC only in the context of
29 LRWC’s next rate case.” The Joint Motion for summary disposition was granted
30 by the court.

31

32 In 2019 the Company filed a petition for approval of a \$633,000 loan from
33 CoBank, ACB to finance the following: to reimburse itself for the replacement of
34 the pump station at DS (\$215,000), replacement of the pump station at WW
35 (\$260,000) and water main replacements at two Paradise Shores system locations,
36 Paradise Shore Road (\$92,000) and Robin lane (\$66,000). On August 14, 2020
37 the NHPUC Staff recommended that the Commission approve LRWC’s petition.
38 The Company is awaiting NHPUC approval.

39

40 Also, in 2019, the Company filed a request for change in rates, in part to fully
41 recover its investment in the new pump station, for its DS customers. On
42 December 4, 2020, the NHPUC Staff filed a Settlement Agreement, entered into
43 by the NHPUC Staff and LRWC. The Settlement Agreement proposed both
44 temporary and permanent rates. The permanent rates for DS are equivalent with
45 LRWC’s current consolidated general service – metered customer rates. On
46 December 17, 2020 a hearing was held on the Settlement Agreement.

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7 **YEAR END RATE BASE**

8
9 Q. Why have you used year end rate base in your analysis of LWRC rates?

10
11 A. I included all of the assets placed in service during the test year in rate base and a
12 full year's depreciation because all of the assets were known and measurable and
13 fully in use for the customers' benefit at December 31, 2019. Historically, the use
14 of test year average rate base has been used for additons that result in new
15 customer revenues in order to match revenues to rate base. However, in this case,
16 all or nearly all of the investment in new plant was to replace aging infrastructure
17 in order to continue to serve customers in compliance with DES and PUC water
18 service rules.

19
20 If the Company is not allowed the 2019 and 2020 assets to be fully reflected, it
21 loses the related revenue between now and its next rate case. Even in the next
22 rate case, it will not recover the lost revenue between now and then. It will only
23 earn a return on the reduced net asset value, not the full asset value. The result
24 would deny the Company a reasonable return on its actual investment in plant
25 required to serve customers.

26
27 Use of year end rate base is consistent with Order No. 25,391, in which the
28 Commission considered circumstances similar to this case and explained that
29 "though we traditionally employ a 13 month average for rate base additions, we
30 will make a one-time exception and utilize the year end rate base for certain non-
31 revenue producing plant in service, as Lakes Region requested." For these and
32 other good reasons, I used year end rate base in order to determine a just and
33 reasonable rate.

34
35 **INTRODUCTION TO RATE CASE SCHEDULES**

36
37 Q. Why has the Company proposed four sets of schedules?

38
39 A. The Company has prepared four sets of schedules based in part on the Settlement
40 Agreement reached in the Dockham Shores rate case in DW 19-177. The first set
41 of schedules reflects the Total Company with all of LRWC's customers served
42 under a consolidated rate. LRWC requests that the Commission approve rate
43 consolidation as shown in the Total Company schedules.

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6
7 The other 3 sets of schedules show LRWC's general rates without consolidation
8 as well as the DS and WW systems on a stand-alone basis. These schedules
9 illustrate how significant rate increase can occur as improvements are made to
10 individual systems in the absence of rate consolidation. By consolidating rates for
11 all systems, LRWC is able to spread the impact of system improvements and
12 thereby avoid having to seek individual rate increases for each system. This
13 greatly benefits customers and the Company by reducing the costs to serve
14 customers.

15
16 In the event that the NHPUC does not approve incorporating DS & WW into the
17 consolidated rates, then there are supporting schedules for LRWC (w/o DS &
18 WW) and DS & WW. Please note that the description of certain schedules and
19 adjustments are the same or similar throughout the four sets of schedules
20

21 **TOTAL COMPANY**

22
23 Q. Then, would you please summarize the Total Company schedules?
24

25 A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test
26 Year ended December 31, 2019," summarizes the supporting schedules. The
27 actual revenue deficiency for the Total Company for the test year amounts to
28 \$85,520. It is based upon an actual test year with a 13 month average rate base of
29 \$3,771,357 as summarized in Schedule 3, column o. Total Company's allowed
30 rate of return, adjusted for changes in the capital structure and costs rates is 8.69%
31 for the actual test year. The rate of return of 8.69%, when multiplied by the rate
32 base of \$3,771,357, results in an operating income requirement of \$327,545. As
33 shown on Schedule 1, column b, line 19, the actual net operating income for the
34 Company for the test year was \$242,025. The operating income required, less the
35 net operating income, results in an operating income deficiency of \$85,520.
36

37 The proforma revenue deficiency for the Total Company for the test year amounts
38 to zero. It is based upon a proformed test year rate base of \$4,132,015, as
39 summarized in Schedule 3, column q. The Company is utilizing a proformed rate
40 of return of 8.79% for the proformed test year. The proformed rate of return of
41 8.79% when multiplied by the rate base of \$4,132,015, results in an operating net
42 income requirement of \$363,262. As shown on Schedule 1, column d, line 19 the
43 proformed net operating income for the Company for the test year is \$363,262.
44 The operating income required, less the net operating income, results in a
45 deficiency of zero.
46

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6
7 Q. Would you please explain Schedule 1 and supporting schedules?

8
9 A. Schedule 1 reflects the Company's Operating Income Statement. Column b
10 shows the actual test year results for the Company (as reported to the PUC in its
11 2019 PUC Annual Report). Column c shows the proforma adjustments for known
12 and measurable changes to test year revenues and expenses. The proforma
13 adjustments are further supported by schedule 1A – 1E. Column d shows the
14 proforma test year results. Column e and Column f are actual results for 2018 and
15 2017, respectively.

16
17 During the twelve months ended December 31, 2019, the actual Total Operating
18 Revenues amounted to \$1,563,690, a decrease of \$38,458 over 2018. The
19 decrease is due to lower Other Water Revenues and lower POASI revenues. The
20 lower Other Water Revenues are due to lower rate case surcharge revenues and a
21 PUC order reduction in revenues due tax savings refund in DW 18-056. The
22 lower POASI revenues are due lower water consumption. The lower revenues are
23 offset by higher Water Sales Revenues due to higher consumption and more
24 customers.

25
26 Total Company's total operating expenses amounted to \$1,321,665, a decrease of
27 \$20,682 over 2018. The decrease in total operating expenses was due to
28 decreases in income taxes and depreciation expenses, offset by an increase
29 operating and maintenance expenses, primarily transmission and distribution
30 expenses. The 2019 Total Company Net Operating Income amounted to
31 \$242,025. Net Income for 2018 was \$259,801.

32
33 The Company has made 5 proforma adjustments to operating revenues
34 totaling \$278,865. The specific proforma adjustments are identified on the
35 operating revenues schedule (Schedule 1A). A brief explanation is as follows:

36
37 Proforma Adjustment to Revenues

38
39 1. Sales of Water – Special Contract - Property Owners Association at
40 Swissevale, Inc. ("POASI") – (\$17,747).

41
42 The Company has a water supply agreement with POASI. The Agreement
43 allows the Company to adjust the amount charged to POASI based on its actual
44 costs to provide service to them. In 2019, the Company recorded revenues of
45 \$228,515. In 2020, after adjusting the amount for 2019 actual costs, the Company
46 anticipates revenues of \$210,768, a decrease of \$17,747. While the Company

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6
7 anticipates a decrease in revenues from the POASI agreement, such revenues will
8 be offset by a like amount of increased revenues from other customers.

9
10 2. Sales of Water – Amount Necessary to Earn Return and Cover Operating
11 Costs - \$260,172.

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

16
17 Total Proforma Adjustment to Water Sales is \$242,425.

18
19 3. Rate Case Surcharge – (\$32,980).

20
21 The Company is reducing test revenue by the amount of revenue
22 associated with the recovery of approved rate case expenditures. Please note that
23 there is also a reduction in test year expenses by the amount of regulatory
24 expenses associated with the recovery of approved rate case expenditures.

25
26 4. DW 18-056 Tax Savings Refund - \$42,707.

27
28 The Company is increasing test revenues for the elimination of the DW
29 18-056 tax savings refund. As indicated earlier, at no point in time did LRWC
30 exceed its rate of return even with the lower federal corporate tax rate. As such,
31 the lower federal taxes were offset by other higher expenses. Since the Company
32 did not exceed its authorized rate of return, its revenues should not be reduce by
33 the supposed tax savings.

34
35 5. Revenue from Contract Work - \$26,713.

36
37 The Company credits revenue from contract work to PUC account 415,
38 Revenues from ... Contract Work. Since account 415 is reflected in Other
39 Income and Expenses, the Company is reclassifying the revenues to Other Water
40 Revenues. The expenses associated with such contract work are reflected in test
41 year expenses.

42
43 The Total Proforma Adjustments to Other Water Revnues amounts to
44 \$36,440. Total Proforma Adjustments to Operating Revenue amounts to
45 \$278,865.

46

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6
7 The Company has made 21 proforma adjustments to operating expenses
8 totaling \$157,628. The specific proforma adjustments are identified on the
9 operating expenses schedule (Schedule 1B). A brief explanation is as follows:

10
11 Proforma Adjustments to Expense

12
13 1. Operating and Maintenance Expenses - Wages – \$51,464.

14
15 During the test year, 3 employees left and 3 new employees joined the
16 Company. LRWC removed wages associated with inactive employees and
17 adjusted wages for new employees to reflect 52 weeks. The Company provided
18 employees with a 3% cost of living increase on 7/1/20. The Company anticipates
19 providing a 3% cost of living increase on 7/1/21. Also, in 2020, the Company
20 began providing a \$25.00 a day stipend for each day employees are on call.

21
22 2. Operating and Maintenance Expenses - Benefits – \$16,566.

23
24 Benefits include health, dental, retirement and HRA. Total benefits
25 incurred and reflected in test year amount to \$53,854. With the change in
26 employees, there are changes in benefit costs amounting to an increase of
27 \$16,566.

28
29 3 - 6. Operating and Maintenance Expense – Treatment Expenses (\$8,035),
30 T&D Expenses (\$9,515), Customer Accounts Expenses (\$9,155) and A&G
31 Expenses \$12,534.

32
33 When reviewing test year expenses, certain expenses were significantly
34 different as compared to 2018. As such, the Company is proposing a 2 year
35 average of such expenses. Treatment expenses can vary from year to year,
36 particularly with respect to certain water tests that are scheduled at 2, 3 & 5 year
37 intervals. T&D expenses can also vary from year to year, particularly as it
38 pertains to mains and services breaks. Bad debt expenses can also vary. A&G
39 expenses, particularly outside services, can vary as well. The Company is
40 proposing a 2 year average to smooth out the variations and to end up at an
41 amount likely to represent an appropriate amount going forward. See Sch 1C for
42 the 2019, 2018 and 2 year average amounts.

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7 7. Operating and Maintenance – Regulatory Commission – (\$26,339).

8

9 The Company is reducing test expenses by the amount of regulatory
10 commission expenses associated with the recovery of approved rate case
11 expenditures. Please note that there is also a reduction in test year revenues by
12 the amount of rate case expenditure surcharge revenue.

13

14 8. Operating and Maintenance – Regulatory Commission – \$16,259.

15

16 In recent years, the Company has deferred various expenditures, mostly
17 associated with certain regulatory proceedings, except for the West Point (“WP”)
18 dry well. See Sch 3B for account titles, descriptions and amounts. The total
19 miscellaneous deferred debits amounts total \$93,731. For those costs associated
20 with specific proceedings (DW 15-209 Step 2 - \$2,145, IR 19-005 ROE Petition -
21 \$50,835, DW 18-056 Tax Act - \$18,526 and DW 16-619 Step Increase - \$5,644)
22 amounting to \$77,150, the Company is proposing to amortize and recover such
23 costs over a 5 year period. The annual amortization amounts to \$15,430 (\$77,150
24 / 5). Arguably, some of these costs can/should be recovered as part of rate case
25 expenditures, but the Company decided to exclude such costs from this
26 proceeding’s rate case costs and to recover such costs over a longer period of time
27 to lessen the impact on customers. In 2014 NHDES found that “it appears that the
28 water is not capable of meeting the peak water demands of the system due to very
29 low yielding wells.” As such, the Company was looking for a new source of
30 supply for its WP customers. Unfortunately, the Company was not successful.
31 As such, the Company is proposing to recover such expenditures over a 20 year
32 period, resulting in an annual amortization of \$829 (\$16,581 / 20). Again, see Sch
33 3B.

34

35 9. PUC Audit Costs - \$1,667.

36

37 The Company anticipates that the PUC audit staff will audit the
38 Company’s test year and its test year revenues, expenses, plant, debt, etc.
39 The Company estimated that the Company will incur approximately \$5,000 in
40 expenses not reflected in the test year. The Company proposes to defer and
41 charge such expenses to outside services.

42

43 Total Proforma Adjustments to O&M Expenses are \$45,446.

44

45

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7 10. Depreciation Expense – 2019 Additions to Plant - \$2,527.

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In 2016 and 2017 the Company incurred \$35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC “Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS ...”

Similarly, in 2017 and 2018, the Company incurred \$14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to recover such DS and WW costs over 20 years, resulting in an annual amortization of \$2,527. See Sch 3C.

11. Depreciation Expense – 2019 Additions to Plant - \$12,510.

The Company is proposing to include the additional half year depreciation on the 2019 additions to plant. In 2019 the Company placed in service \$161,340 of plant. None of the assets placed in service were revenue producing assets. During 2019 the Company recorded \$9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to \$22,308, resulting in an additional \$12,510 needed. See Sch. 3D.

12. Depreciation Expense – 2019 Retirements to Plant – (\$1,172).

In 2019 the Company retired from plant \$114,627. Certain retired assets were not fully depreciated, resulting in \$1,172 of depreciation during the test year. With the retirement of the assets, no such depreciation will take place. As such, the Company is proposing to eliminate \$1,172 of depreciation expenses from test year expenses. See Sch. 3E.

13. Depreciation Expense – 2020 Additions to Plant - \$12,010.

The Company is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, the Company has placed \$191,548 into service. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 9/30/20 plant amount to \$12,010. See Sch. 3F. At an appropriate time during the proceeding, the Company will update the 2020 addition to plant as of 12/31/20.

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7

14. Depreciation Expense – 2020 Retirements to Plant – (\$668).

8

9

In 2020 the Company retired from plant \$26,741. Certain retired assets were not fully depreciated, resulting in \$668 of depreciation during the test year. With the retirement of the assets, no such depreciation will take place. As such, the Company is proposing to eliminate \$668 of depreciation expenses from test year expenses. See Sch. 3G.

10

11

12

13

14

15

15. Depreciation Expense – 2021 Additions to Plant - \$13,874.

16

17

In 2021 the Company anticipates placing into service \$418,000 of plant associated with main replacement projects at Paradise Shores and pump station replacement at WW. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 2021 plant amount to \$13,874. See Sch. 3H.

18

19

20

21

22

23

16. Depreciation Expense – 2021 Retirements to Plant – (\$...).

24

25

In 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

26

27

28

29

30

Total Proforma Adjustments to Depreciation Expenses are \$39,082.

31

32

17. Taxes other than Income – State Utility Property Taxes - \$4,305.

33

34

In 2019 the Company incurred \$27,276 in state utility property taxes. With the 2019, 2020 and 2021 additions to plant, the Company anticipates that the state utility property taxes will increase by \$488, \$1,150 and \$2,667, respectively. As such, the Company has prepared a proforma adjustment for \$4,305. See column (m) on Schedules 3D, 3F & 3H for the calculation.

35

36

37

38

39

40

18. Taxes other than Income – Municipal Property Taxes - \$5,900.

41

42

In 2019 the Company incurred \$49,036 in municipal property taxes. With the 2019, 2020 and 2021 additions to plant, the Company anticipates that the municipal utility property taxes will increase by \$580, \$1,913 and \$3,406, respectively. As such, the Company has prepared a proforma adjustment for \$5,900. See column (p) on Schedules 3D, 3F & 3H for the calculation.

43

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7 19. Taxes other than Income - Payroll Taxes - \$6,052.

8
9 In 2019 the Company incurred \$28,149 of payroll taxes. With the change
10 in personnel and the proposed increases in wages (in expense proforma
11 adjustments 1), there is also a related increase in the payroll taxes. With the
12 proposed increase in net wages, the Company anticipates that its payroll taxes will
13 amount to \$34,201. As such, the Company increased payroll taxes by the
14 difference of \$6,052.

15
16 20/21. Federal Income and State Business Taxes - \$56,843.

17
18 With the proposed increase in revenue offset by the proposed increase in
19 expenses, there is also a related increase in the federal income and state business
20 taxes. The increase in federal income taxes represents the additional tax liability
21 due to the increase in taxable income. The increase in state business taxes
22 represents the additional tax liability due to the increase in gross profits. See Sch
23 1D & 1E.

24
25 The total proforma adjustments to Operating Expenses amounts to
26 \$157,628.

27
28 The net of the proforma adjustments to operating revenue \$278,865 and
29 the proforma adjustments to operating expenses \$157,628 results in net proforma
30 adjustment of \$122,840. When the net operating income associated with the
31 proforma adjustments is added to net operating income from the test year, the
32 proforma test year net operating income totals \$363,262. The proforma test year
33 net operating income of \$363,262 allows the Company to cover its expenses and
34 earn a 8.79% return on its investments.

35
36 Q. Does that complete your description of the proforma adjustments to revenues and
37 expenses?

38
39 A. Yes.

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6
7 Q. Are there additional schedules that support Schedule 1.

8
9 A. Yes. Schedule 1C identifies certain operating expenses that were significantly
10 different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and
11 2 year average amounts. The Company is proposing a 2 year average of such
12 expenses. A review of other operating expenses seemed to indicate that such
13 other expense are normal and reoccurring and appropriate for future years.

14
15 Schedule 1D shows the income tax computation. The proforma total rate base
16 amounts to \$4,132,015. See Schedule 3. The proforma weighted average cost
17 rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted
18 average cost rate for equity capital of 6.86% is applied to the proforma total rate
19 base, the proforma net operating income required amounts to \$283,584. When
20 the tax multiplier of 37.14% is applied to the proforma net operating income
21 required, it produces the total tax of \$105,329, which represents the amount of tax
22 needed on the proforma net operating income required. The sum of the proforma
23 net operating income required plus the total tax amount results in taxable income
24 required before income taxes. The business profits tax at 7.70% amounts to
25 \$29,946 and the federal income tax at 21% amounts to \$75,383.

26
27 Schedule 1E shows effective tax factor including the federal and state corporate
28 tax rates.

29
30 Q. Please describe Schedule 2, the Balance Sheet.

31
32 A. The Company has \$5,121,822 total assets at the end of 2019. \$4,592,112 of the
33 \$5,121,822 total assets is net utility plant, most of which is completed and
34 providing service to customers. In 2019 the Company added \$161,340 of plant in
35 service, offset by \$114,627 of plant retired. Most significantly, it added \$97,880
36 of general plant, which benefits all systems.

37
38 The Company has \$2,971,220 of total equity capital. The Company had net
39 income of \$220,050 in 2019, slightly less than net income in 2018. The Company
40 has \$915,541 of long term debt. In 2019 the Company financed the purchase of a
41 truck. The long term debt balance decreased by \$131,785 as compared to 2018.
42 Accumulated deferred income taxes increased significantly by \$205,000 in
43 2019 as compared to 2018.

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6
7 Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting
8 schedule.

9
10 A. Schedule 3 reflects the Company's Rate Base for both the actual 13 month
11 average test year and the 2019 proforma test year. Columns b – n shows the
12 actual month end balances. Column o shows the 13 months average balances.
13 Column p shows the proforma adjustments. Column q shows the 2019 proforma
14 balances. The balances are further supported by Schedules 3A – 3J.

15
16 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
17 plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant
18 Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred
19 Debits, less Deferred Taxes and less Contributions in Aid of Construction plus
20 Accumulated Amortization of CIAC and Cash Working Capital.

21
22 The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base
23 amounts to \$3,771,357 and \$4,132,015, respectively.

24
25 Q. Would you please explain Schedule 3A, Rate Base Adjustments?

26
27 A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my
28 testimony, the Company believes that all assets placed in service during the test
29 year should be fully reflected in rate base and a full year's depreciation on such
30 assets should be fully reflected in depreciation expense and accumulated
31 depreciation. Likewise, the Company believes that other rate base items should
32 be fully reflected in rates. As such, the Company has adjusted the Actual 13
33 Month Average Balances to Year End Balances. The rate base items affected by
34 the reflection of year end balances are (1) plant in service, (7) accumulated
35 depreciation, (14) accumulated amortization of utility plant in service, (15)
36 material and supplies, (16) miscellaneous deferred debits, (17) CIAC, (18) AA of
37 CIAC, (18 - 21) accumulated deferred income taxes.

38
39 In addition to the proforma adjustments to rate base for the year end balances, the
40 Company made a number of other proforma adjustments as follows:

41
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43
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7

2. Plant in Service – Acquisition Costs - \$50,540.

8

9

10

In 2016 and 2017 the Company incurred \$35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC “Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS ...”

11

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Similarly, in 2017 and 2018, the Company incurred \$14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to transfer the amounts out of account 186, miscellaneous deferred debits and into 301, organization costs. The Company is also proposing to recover such DS and WW costs over 20 years, resulting in an annual amortization of \$2,527. See Sch 3C.

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3. Plant in Service – 9/30/20 Additions to Plant - \$191,548.

As of 9/30/20, the Company has placed \$191,548 into service. None of the assets placed in service were revenue producing assets. See Sch. 3F. The Company is proposing to add the 2020 addition to rate base. At an appropriate time during the proceeding, the Company will update the 2020 additions to plant as of 12/31/20.

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4. Plant in Service – 9/30/20 Retirements to Plant – (\$26,741).

In 2020 the Company retired from plant \$26,741. See Sch. 3G. The Company is proposing to reduce the 9/30/20 addition from rate base. At an appropriate time during the proceeding, the Company will update the 2020 retirements to plant as of 12/31/20.

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5. Plant in Service – 2021 Additions to Plant - \$418,000.

In 2021 the Company anticipates placing into service \$418,000 of plant associated with main replacement projects at Paradise Shores and pump station replacement at WW. None of the assets placed in service were revenue producing assets. See Sch. 3H. The Company is proposing to add the 2021 additions to rate base.

58

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7

6. Plant in Service – 2021 Retirements to Plant – (\$...).

8

9

In 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

10

11

12

13

14

8. Accumulated Depreciation – Half year depreciation of organization costs – (\$1,264).

15

16

17

In 2016 and 2017 the Company incurred \$35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. Similarly, in 2017 and 2018, the Company incurred \$14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to ½ accumulated amortization of the organization costs. See Sch 3C.

18

19

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23

9. Accumulated Depreciation – Additional half year depreciation on 2019 additions – (\$12,510).

24

25

26

The Company is proposing to include the additional half year depreciation on the 2019 additions to plant. During 2019 the Company recorded \$9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to \$22,308, resulting in an additional \$12,510 needed. See Sch. 3D.

27

28

29

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31

10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions – (\$12,010).

32

33

34

The Company is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on the 9/30/20 plant amount to \$12,010. See Sch. 3F. At an appropriate time during the proceeding, the Company will update the 2020 addition to plant as of 12/31/20.

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11. Accumulated Depreciation – 2020 Retirements to Plant – \$26,741.

41

42

In 2020 the Company retired from plant \$26,741. As such, the Company is proposing to reduce A/D by \$26,741. See Sch. 3G.

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7 12. Accumulated Depreciation – 2021 Additions to Plant - \$13,874.

8

9 In 2021 the Company anticipates placing into service \$418,000 of plant
10 associated with main replacement projects at Paradise Shores and pump station
11 replacement at WW. The annual depreciation expenses on the 2021 plant amount
12 to \$13,874. See Sch. 3H.

13

14 13. Accumulated Depreciation – 2021 Retirements to Plant – (\$...).

15

16 In 2021 the Company anticipates that certain plant will be retired. The
17 Company has yet to determine what plant and the related original costs. At an
18 appropriate time during the proceeding, the Company will update the 2021
19 retirements to plant and any related depreciation. See Sch. 3I.

20

21 22. Cash Working Capital - \$8,318.

22

23 The Company adjusted cash working capital for the proforma increase in
24 operating and maintenance expenses. See Sch 3J. Schedule 3J shows the
25 computation of cash working capital for 2019 proforma amount and 2019, 2018
26 and 2017 actual amounts. The proforma cash working capital is based on the
27 proforma test year operation and maintenance expenses.

28

29 Q. Please explain Schedule 3B.

30

31 A. Schedule 3B shows account title, description and amounts. In recent years, the
32 Company has deferred various expenditures, mostly associated with certain
33 regulatory proceedings, except for the West Point (“WP”) dry well. The total
34 miscellaneous deferred debits amounts total \$93,731. For those costs associated
35 with specific proceedings (DW 15-209 Step 2 - \$2,145, IR 19-005 ROE Petition -
36 \$50,835, DW 18-056 Tax Act - \$18,526 and DW 16-619 Step Increase - \$5,644)
37 amounting to \$77,150, the Company is proposing to add such amount to rate base
38 and amortize and recover such costs over a 5 year period. Arguably, some of
39 these costs can/should be recovered as part of rate case expenditures, but the
40 Company decided to exclude such costs from this proceeding’s rate case costs and
41 to recover such costs over a longer period of time to lessen the impact on
42 customers. In 2012 the Company was looking for a new source of supply for WP

43

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7 customers. Unfortunately, the Company was not successful. As such, the
8 Company is proposing to add such amounts to rate base and recover such
9 expenditures over a 20 year period.

10

11 Q. Please explain Schedule 3C.

12

13 A. Schedule 3C shows account number, description and amounts. In 2016 and 2017
14 the Company incurred \$35,876 of acquisition costs associated with the purchase
15 of DS in NHPUC DW 16-619. Similarly, in 2017 and 2018, the Company
16 incurred \$14,664 of acquisition costs associated with the purchase of WW in
17 NHPUC DW 17-176. The Company is proposing to transfer the expenditures
18 from PUC account 186 to PUC account 301.

19

20 Q. Please explain Schedules 3D & 3E.

21

22 A. Schedule 3D shows LRWC division numbers, names, PUC account numbers,
23 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
24 tax amounts (m & p). In total, it shows 2019 additions to plant amounting to
25 \$161,340 and the related depreciation and property taxes.

26

27 Schedule 3E shows PUC account numbers and descriptions, plant costs and
28 related depreciation. In total, it shows 2019 retirements to plant amounting to
29 \$114,627 and the related depreciation.

30

31 Q. Please explain Schedules 3F & 3G.

32

33 A. Schedule 3F shows LRWC division numbers, names, PUC account numbers,
34 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
35 tax amounts (m & p). In total, it shows 2020 additions to plant as of 9/30/20
36 amounting to \$191,548 and the related depreciation and property taxes.

37

38 Schedule 3G shows PUC account numbers and descriptions, plant costs and
39 related depreciation. In total, it shows 2020 retirements to plant as of 9/30/20
40 amounting to \$26,741 and the related depreciation.

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6
7 Q. Please explain Schedules 3H & 3I.

8
9 A. Schedule 3H shows LRWC division numbers, names, PUC account numbers,
10 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
11 tax amounts (m & p). In total, it shows projected 2021 additions to plant
12 amounting to \$418,000 and the related depreciation and property taxes.
13 As indicated earlier, in 2021 the Company anticipates that certain plant will be
14 retired. The Company has yet to determine what plant and the related original
15 costs. At an appropriate time during the proceeding, the Company will update the
16 2021 retirements to plant and any related depreciation.

17
18 Q. Please explain Schedules 3J.

19
20 A. Schedule 3J shows the computation of cash working capital for 2019 proforma
21 amount and 2019, 2018 and 2017 actual amounts. The proforma cash working
22 capital is based on the proforma test year operation and maintenance expenses.

23
24 Q. Would you please explain Schedule 4, Rate of Return Information?

25
26 A. Schedule 4 reflects the overall rate of return for both the actual test year and the
27 proforma test year. The weighted average rate of return for the actual test year is
28 8.69%. It was developed by taking the actual component ratios times the actual
29 component cost rates to determine the actual weighted average cost rate. The sum
30 of the actual cost rates for equity and debt equals actual weighted average rate of
31 return. The weighted average rate of return for the proforma test year is 8.79%.
32 It was developed by taking the proforma component ratios times the proforma
33 component cost rates to determine the proforma weighted average cost rate. The
34 sum of the proforma cost rates for equity and debt equals the proforma weighted
35 average rate of return.

36
37 Schedule 4 also reflects both the capital structure and the capital ratios. The
38 Company has provided the capital structure for the actual test year and the
39 proforma test year. It has also provided the actual capital structure for 2018 and
40 2017. The Company is utilizing the Commission determined cost of common
41 equity of 9.69% plus .50% for rate case expense savings adder and .25%
42 exemplary performance adder, resulting in a cost of equity of 10.44%. These
43 adjustments to the cost of equity are based on the Commission's recent proposed
44 rules governing the cost of equity for small water systems in Docket No. IR 19-
45 005. See Mr. Mason testimony for an explanation of exemplary performance.

46

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7

Schedule 4A reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/19 the Company has \$915,541 of outstanding long term debt with related interest of \$50,392 and a cost of debt of 5.72%.

10

11

12

Schedule 4B reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the proforma test year. The proforma outstanding balance is \$1,548,541 of outstanding long term debt. The increase in the outstanding balance is due to the addition of the proposed financing with CoBank for \$633,000. The proforma interest expense related to the debt is \$87,155. The increase in the interest expense is primarily additional interest associated with the CoBank loans. The 2019 proforma cost of debt is 5.63%.

19

20

Q. Please explain the Report of Proposed Rate Changes for Total Company.

21

22

A. If the Company filing is approved as submitted, its total water Operating Revenues will amount to \$1,844,158. The Total Sales of Water amounts to \$1,793,910 of which \$1,583,142 comes from the Company's 1,812 unmetered and metered customers.

25

26

27

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

28

29

30

A. No. The Company is generally using the same methodology. It is applying the rate increase to the various components of rates.

31

32

33

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

34

35

A. The Company is proposing that the new rates be effective February 15, 2021.

36

37

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

38

39

A. No.

40

41

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6
7 **LRWC (w/o DS & WW)**

8
9 Q Then, would you please summarize the LRWC schedules?

10
11 A Yes. The schedule entitled "Computation of Revenue Deficiency for the Test
12 Year ended December 31, 2019," summarizes the supporting schedules. The
13 actual revenue deficiency for LRWC for the test year amounts to \$27,965. It is
14 based upon an actual test year with a 13 month average rate base of \$3,405,499 as
15 summarized in Schedule 3, column o. LRWC's actual rate of return is 8.69% for
16 the actual test year. The rate of return of 8.69%, when multiplied by the rate base
17 of \$3,405,499, results in an operating income requirement of \$295,771. As
18 shown on Schedule 1, column b, line 21, the actual net operating income for
19 LRWC for the test year was \$267,806. The operating income required, less the
20 net operating income, results in an operating income deficiency before taxes of
21 \$27,965. LRWC did not calculate the tax effect of the revenue deficiency,
22 resulting in a revenue deficiency for LRWC of \$27,965.

23
24 The proforma revenue deficiency for the LRWC for the test year amounts to zero.
25 It is based upon a proformed test year rate base of \$3,469,323, as summarized in
26 Schedule 3, column q. LRWC is utilizing a proformed rate of return of 8.79% for
27 the proformed test year. The proformed rate of return of 8.79% when multiplied
28 by the rate base of \$3,469,323, results in an operating net income requirement of
29 \$305,002. As shown on Schedule 1, column d, line 21 the proformed net
30 operating income for LRWC for the test year is \$305,002. The operating income
31 required, less the net operating income, results in a deficiency of zero. The tax
32 effect of the deficiency is zero, resulting in a revenue deficiency for LRWC of
33 zero.

34
35 Q. Would you please explain LRWC Schedule 1 and supporting schedules?

36
37 A Schedule 1 reflects LRWC's Operating Income Statement. Column b shows the
38 actual test year results for LRWC Column c shows the proforma adjustments for
39 known and measurable changes to test year revenues and expenses. The proforma
40 adjustments are further supported by schedule 1A – 1E. Column d shows the
41 proforma test year results. Column e and Column f are actual results for 2018 and
42 2017, respectively.

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7 During the twelve months ended December 31, 2019, the actual Total Operating
8 Revenues amounted to \$1,498,843, a decrease of \$103,305 over 2018. The
9 decrease is due to lower Other Water Revenues and lower POASI revenues. The
10 lower Other Water Revenues are due to lower rate case surcharge revenues and a
11 PUC ordered reduction in revenues due tax savings refund in DW 18-056. The
12 lower POASI revenues are due to lower water consumption. The lower revenues
13 are offset by higher Water Sales Revenues due to higher consumption and more
14 customers.

15

16 LRWC's total operating expenses amounted to \$1,231,037, a decrease of
17 \$111,310 over 2018. The decrease in total operating expenses was due to
18 decreases in income taxes and depreciation expenses, offset by an increase
19 operating and maintenance expenses, primarily transmission and distribution
20 expenses. The 2019 LRWC Net Operating Income amounted to \$267,806.
21 LRWC's Net Income for 2018 was \$259,801.

22

23 The Company has made 5 proforma adjustments to operating revenues
24 totaling \$162,003. The specific proforma adjustments are identified on the
25 operating revenues schedule (Schedule 1A). A brief explanation is as follows:

26

27 Proforma Adjustment to Revenues

28

29 1. Sales of Water – Special Contract - Property Owners Association at
30 Swissevale, Inc. (“POASI”) – (\$17,747).

31

32 The Company has a water supply agreement with POASI. The Agreement
33 allows the Company to adjust the amount charged to POASI based on its actual
34 costs to provide service to them. In 2019, the Company recorded revenues of
35 \$228,515. In 2020, after adjusting the amount for 2019 actual costs, the Company
36 anticipates revenues of \$210,768, a decrease of \$17,747. While the Company
37 anticipates a decrease in revenues from the POASI agreement, such revenues will
38 be offset by a like amount of increased revenues from other customers.

39

40 2. Sales of Water – Amount Necessary to Earn Return and Cover Operating
41 Costs - \$144,913.

42

43 The Company has increased test revenues for the proposed amount of
44 revenues necessary to cover its expenses and allow it to earn its proposed rate of
45 return.

46

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6
7 Total Proforma Adjustment to Water Sales is \$127,166.

8
9 3. Rate Case Surcharge – (\$32,980).

10
11 The Company is reducing test revenue by the amount of revenue
12 associated with the recovery of approved rate case expenditures. Please note that
13 there is also a reduction in test year expenses by the amount of regulatory
14 expenses associated with the recovery of approved rate case expenditures.
15

16 4. DW 18-056 Tax Savings Refund - \$42,707.

17
18 The Company is increasing test revenues for the elimination of the DW
19 18-056 tax savings refund. As indicated earlier, at no point in time did LRWC
20 exceed its rate of return even with the lower federal corporate tax rate. As such,
21 the lower federal taxes were offset by other higher expenses. Since the Company
22 did not exceed its authorized rate of return, its revenues should not be reduced by
23 the supposed tax savings.
24

25 5. Revenue from Contract Work - \$25,110.

26
27 The Company credits revenue from contract work to PUC account 415,
28 Revenues from ... Contract Work. Since account 415 is reflected in Other
29 Income and Expenses, the Company is reclassifying the revenues to Other Water
30 Revenues. The expenses associated with such contract work are reflected in test
31 year expenses.
32

33 The Total Proforma Adjustments to Other Water Revenues amounts to
34 \$34,837. Total Proforma Adjustments to Operating Revenue amounts to
35 \$162,003.
36

37 The Company has made 21 proforma adjustments to operating expenses
38 totaling \$124,807. The specific proforma adjustments are identified on the
39 operating expenses schedule (Schedule 1B). A brief explanation is as follows:
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42
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6
7 Proforma Adjustments to Expense

8
9 1. Operating and Maintenance Expenses - Wages – \$51,464.

10
11 During the test year, 3 employees left and 3 new employees joined the
12 Company. LRWC removed wages associated with inactive employees and
13 adjusted wages for new employees to reflect 52 weeks. The Company provided
14 employees with a 3% cost of living increase on 7/1/20. The Company anticipates
15 providing a 3% cost of living increase on 7/1/21. Also, in 2020, the Company
16 began providing a \$25.00 a day stipend for each day employees are on call.

17
18 2. Operating and Maintenance Expenses - Benefits – \$16,566.

19
20 Benefits include health, dental, retirement and HRA. Total benefits
21 incurred and reflected in test year amount to \$53,854. With the change in
22 employees, there are changes in benefit costs amounting to an increase of
23 \$16,566.

24
25 3 - 6. Operating and Maintenance Expense – Treatment Expenses (\$4,901),
26 T&D Expenses (\$9,089), Customer Accounts Expenses (\$9,082) and A&G
27 Expenses \$11,741.

28
29 When reviewing test year expenses, certain expenses were significantly
30 different as compared to 2018. As such, LRWC is proposing a 2 year average of
31 such expenses. Treatment expenses can vary from year to year, particularly with
32 respect to certain water test that are schedule at 2, 3 & 5 year intervals. T&D
33 expenses can also vary from year to years, particularly as it pertains to mains and
34 services breaks. Bad debt expense can also vary. A&G expenses, particularly
35 outside services, can vary as well. LRWC is proposing a 2 year average to
36 smooth out the variations and to end up at an amount likely to represent an
37 appropriate amount going forward. See Sch 1C for the 2019, 2018 and 2 year
38 average amounts.

39
40 7. Operating and Maintenance – Regulatory Commission – (\$26,339).

41
42 LRWC is reducing test expenses by the amount of regulatory commission
43 expenses associated with the recovery of approved rate case expenditures. Please
44 note that there is also a reduction in test year revenues by the amount of rate case
45 expenditure surcharge revenue.

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- 6
7 8. Operating and Maintenance – Regulatory Commission – \$15,130.

8
9 In recent years, LRWC has deferred various expenditures, mostly
10 associated with certain regulatory proceedings, except for the West Point (“WP”)
11 dry well. See Sch 3B for account titles, descriptions and amounts. The total
12 miscellaneous deferred debits amounts total \$88,087. For those costs associated
13 with specific proceedings (DW 15-209 Step 2 - \$2,145, IR 19-005 ROE Petition -
14 \$50,835 and DW 18-056 Tax Act - \$18,526 amounting to \$71,506, LRWC is
15 proposing to amortize and recover such costs over a 5 year period. The annual
16 amortization amounts to \$14,301 ($\$71,506 / 5$). Arguably, some of these costs
17 can/should be recovered as part of rate case expenditures, but LRWC decided to
18 exclude such costs from this proceeding’s rate case costs and to recover such
19 costs over a longer period of time to lessen the impact on customers. In 2014
20 NHDES found that “it appears that the water is not capable of meeting the peak
21 water demands of the system due to very low yielding wells.” As such, the
22 Company was looking for a new source of supply for its WP customers.
23 Unfortunately, LRWC was not successful. As such, LRWC is proposing to
24 recover such expenditures over a 20 year period, resulting in an annual
25 amortization of \$829 ($\$16,581 / 20$). Again, see Sch 3B.

- 26
27 9. PUC Audit Costs - \$1,667.

28
29 LRWC anticipates that the PUC audit staff will audit the LRWC’s test
30 year and its test year revenues, expenses, plant, debt, etc. LRWC estimated that
31 LRWC will incur approximately \$5,000 in expenses not reflected in the test year.
32 LRWC proposes to defer and charge such expenses to outside services.

33
34 Total Proforma Adjustments to O&M Expenses are \$47,158.

- 35
36 10. Depreciation Expense – 2019 Additions to Plant - \$0.

- 37
38 11. Depreciation Expense – 2019 Additions to Plant - \$12,510.

39
40 LRWC is proposing to include the additional half year depreciation on the
41 2019 additions to plant. In 2019 LRWC placed in service \$161,340 of plant.
42 None of the assets placed in service were revenue producing assets. During 2019
43 LRWC recorded \$9,798 of depreciation expenses. The annual depreciation
44 expenses on the 2019 plant amount to \$22,308, resulting in an additional \$12,510
45 needed. See Sch. 3D.

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7 12. Depreciation Expense – 2019 Retirements to Plant – (\$1,172).

8

9

10 In 2019 LRWC retired from plant \$114,627. Certain retired assets were
11 not fully depreciated, resulting in \$1,172 of depreciation during the test year.

12 With the retirement of the assets, no such depreciation will take place. As such,
13 LRWC is proposing to eliminate \$1,172 of depreciation expenses from test year
14 expenses. See Sch. 3E.

14

15 13. Depreciation Expense – 2020 Additions to Plant - \$11,794.

16

17 LRWC is proposing to include the annual depreciation expense associated
18 with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, LRWC has placed
19 \$189,387 into service. None of the assets placed in service were revenue
20 producing assets. The annual depreciation expenses on the 9/30/20 plant amount
21 to \$11,794. See Sch. 3F. At an appropriate time during the proceeding, LRWC
22 will update the 2020 addition to plant as of 12/31/20.

23

24 14. Depreciation Expense – 2020 Retirements to Plant – (\$668).

25

26 In 2020 LRWC retired from plant \$26,741. Certain retired assets were not
27 fully depreciated, resulting in \$668 of depreciation during the test year. With the
28 retirement of the assets, no such depreciation will take place. As such, LRWC is
29 proposing to eliminate \$668 of depreciation expenses from test year expenses.
30 See Sch. 3G.

31

32 15. Depreciation Expense – 2021 Additions to Plant - \$3,235.

33

34 In 2021 LRWC anticipates placing into service \$158,000 of plant
35 associated with main replacement projects at Paradise Shores. None of the assets
36 placed in service were revenue producing assets. The annual depreciation
37 expenses on the 2021 plant amount to \$13,874. See Sch. 3H.

38

39 16. Depreciation Expense – 2021 Retirements to Plant – (\$...).

40

41 In 2021 LRWC anticipates that certain plant will be retired. LRWC has
42 yet to determine what plant and the related original costs. At an appropriate time
43 during the proceeding, LRWC will update the 2021 retirements to plant and any
44 related depreciation. See Sch. 3I.

45

46 Total Proforma Adjustments to Depreciation Expenses are \$25,699.

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6
7 17. Taxes other than Income – State Utility Property Taxes - \$2,646.

8
9 In 2019 LRWC incurred \$27,276 in state utility property taxes. With the
10 2019, 2020 and 2021 additions to plant, LRWC anticipates that the state utility
11 property taxes will increase by \$488, \$1,137 and \$1,021, respectively. As such,
12 LRWC has prepared a proforma adjustment for \$2,646. See column (m) on
13 Schedules 3D, 3F & 3H for the calculation.

14
15 18. Taxes other than Income – Municipal Property Taxes - \$3,301.

16
17 In 2019 LRWC incurred \$49,036 in municipal property taxes. With the
18 2019, 2020 and 2021 additions to plant, LRWC anticipates that the state utility
19 property taxes will increase by \$580, \$1,893 and \$828, respectively. As such,
20 LRWC has prepared a proforma adjustment for \$5,900. See column (p) on
21 Schedules 3D, 3F & 3H for the calculation.

22
23 19. Taxes other than Income - Payroll Taxes - \$6,052.

24
25 In 2019 LRWC incurred \$28,149 of payroll taxes. With the change in
26 personnel and the proposed increases in wages (in expense proforma adjustments
27 1), there is also a related increase in the payroll taxes. With the proposed
28 increase in net wages, LRWC anticipates that its payroll taxes will amount to
29 \$34,201. As such, LRWC increased payroll taxes by the difference of \$6,052.

30
31 20/21. Federal Income and State Business Taxes - \$39,951.

32
33 With the proposed increase in revenue offset by the proposed increase in
34 expenses, there is also a related increase in the federal income and state business
35 taxes. The increase in federal income taxes represents the additional tax liability
36 due to the increase in taxable income. The increase in state business taxes
37 represents the additional tax liability due to the increase in gross profits. See Sch
38 1D & 1E.

39
40 The total proforma adjustments to Operating Expenses amounts to
41 \$124,807.

42
43 The net of the proforma adjustments to operating revenue \$162,003 and
44 the proforma adjustments to operating expenses \$124,807 results in net proforma
45 adjustment of \$37,196. When the net operating income associated with the
46 proforma adjustments is added to net operating income from the test year, the

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7 proforma test year net operating income totals \$305,002. The proforma test year
8 net operating income of \$305,002 allows LRWC to cover its expenses and earn a
9 8.79% return on its investments.

10

11 Q. Does that complete your description of the proforma adjustments to revenues and
12 expenses?

13

14 A. Yes.

15

16 Q. Are there additional schedules that support Schedule 1.

17

18 A. Yes. Schedule 1C identifies certain operating expenses that were significantly
19 different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and
20 2 year average amounts. LRWC is proposing a 2 year average of such expenses.
21 A review of other operating expenses seemed to indicate that such other expenses
22 are normal and reoccurring and appropriate for future years.

23

24 Schedule 1D shows the income tax computation. The proforma total rate base
25 amounts to \$3,469,323. See Schedule 3. The proforma weighted average cost
26 rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted
27 average cost rate for equity capital of 6.86% is applied to the proforma total rate
28 base, the proforma net operating income required amounts to \$238,103. When
29 the tax multiplier of 37.14% is applied to the proforma net operating income
30 required, it produces the total tax of \$88,437, which represents the amount of tax
31 needed on the proforma net operating income required. The sum of the proforma
32 net operating income required plus the total tax amount results in taxable income
33 required before income taxes. The business profits tax at 7.70% amounts to
34 \$25,144 and the federal income tax at 21% amounts to \$63,293.

35

36 Schedule 1E shows effective tax factor including the federal and state corporate
37 tax rates.

38

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

41

42 A. Schedule 3 reflects the LRWC's Rate Base for both the actual 13 month average
43 test year and the 2019 proforma test year. Columns b – n shows the actual month
44 end balances. Column o shows the 13 months average balances. Column p
45 shows the proforma adjustments. Column q shows the 2019 proforma balances.
46 The balances are further supported by Schedules 3A – 3J.

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6
7 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
8 plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant
9 Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred
10 Debits, less Deferred Taxes and less Contributions in Aid of Construction plus
11 Accumulated Amortization of CIAC and Cash Working Capital.
12

13 The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base
14 amounts to \$3,405,499 and \$3,469,323, respectively.
15

16 Q. Would you please explain Schedule 3A, Rate Base Adjustments?
17

18 A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my
19 testimony, LRWC believes that all assets placed in service during the test year
20 should be fully reflected in rate base and a full year's depreciation on such assets
21 should be fully reflected in depreciation expense and accumulated depreciation.
22 Likewise, LRWC believes that other rate base items should be fully reflected in
23 rates. As such, LRWC has adjusted the Actual 13 Month Average Balances to
24 Year End Balances. The rate base items affected by the reflection of year end
25 balances are (1) plant in service, (7) accumulated depreciation, (14) accumulated
26 amortization of utility plant in service, (15) material and supplies, (16)
27 miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21)
28 accumulated deferred income taxes.
29

30 In addition to the proforma adjustments to rate base for the year end balances,
31 LRWC made a number of other proforma adjustments as follows:
32

33 2. Plant in Service – Acquisition Costs - \$0.
34

35 3. Plant in Service – 9/30/20 Additions to Plant - \$189,387.
36

37 As of 9/30/20, LRWC has placed \$189,387 into service. None of the
38 assets placed in service were revenue producing assets. See Sch. 3F. LRWC is
39 proposing to add the 2020 addition to rate base. At an appropriate time during the
40 proceeding, LRWC will update the 2020 additions to plant as of 12/31/20.
41

42 4. Plant in Service – 9/30/20 Retirements to Plant – (\$26,741).
43

44 In 2020 LRWC retired from plant \$26,741. See Sch. 3G. LRWC is
45 proposing to reduce the 9/30/20 addition from rate base. At an appropriate time
46 during the proceeding, LRWC will update the 2020 retirements to plant.

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6
7 5. Plant in Service – 2021 Additions to Plant - \$158,000.

8
9 In 2021 LRWC anticipates placing into service \$158,000 of plant
10 associated with main replacement projects at Paradise Shores. None of the assets
11 placed in service were revenue producing assets. See Sch. 3H. LRWC is
12 proposing to add the 2021 additions to rate base.
13

14 6. Plant in Service – 2021 Retirements to Plant – (\$...).

15
16 In 2021 LRWC anticipates that certain plant will be retired. LRWC has
17 yet to determine what plant and the related original costs. At an appropriate time
18 during the proceeding, LRWC will update the 2021 retirements to plant and any
19 related depreciation. See Sch. 3I.
20

21 8. Accumulated Depreciation – Half year depreciation of organization costs
22 – (\$0).

23
24 9. Accumulated Depreciation – Additional half year depreciation on 2019
25 additions – (\$12,510).

26
27 LRWC is proposing to include the additional half year depreciation on the
28 2019 additions to plant. During 2019 LRWC recorded \$9,798 of depreciation
29 expenses. The annual depreciation expenses on the 2019 plant amount to
30 \$22,308, resulting in an additional \$12,510 needed. See Sch. 3D.
31

32 10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions –
33 (\$11,794).

34
35 LRWC is proposing to include the annual depreciation expense associated
36 with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on
37 the 9/30/20 plant amount to \$11,794. See Sch. 3F. At an appropriate time during
38 the proceeding, LRWC will update the 2020 addition to plant as of 12/31/20.
39

40 11. Accumulated Depreciation – 2020 Retirements to Plant – \$26,741.

41
42 In 2020 LRWC retired from plant \$26,741. As such, LRWC is proposing
43 to reduce A/D by \$26,741. See Sch. 3G.
44
45
46

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7 12. Accumulated Depreciation – 2021 Additions to Plant - \$3,235.

8

9 In 2021 LRWC anticipates placing into service \$158,000 of plant
10 associated with main replacement projects at Paradise Shores. The annual
11 depreciation expenses on the 2021 plant amount to \$3,235. See Sch. 3H.

12

13 13. Accumulated Depreciation – 2021 Retirements to Plant – (\$...).

14

15 In 2021 LRWC anticipates that certain plant will be retired. LRWC has
16 yet to determine what plant and the related original costs. At an appropriate time
17 during the proceeding, LRWC will update the 2021 retirements to plant and any
18 related depreciation. See Sch. 3I.

19

20 22. Cash Working Capital - \$8,632.

21

22 LRWC adjusted cash working capital for the proforma increase in
23 operating and maintenance expenses. See Sch 3J. Schedule 3J shows the
24 computation of cash working capital for 2019 proforma amount and 2019, 2018
25 and 2017 actual amounts. The proforma cash working capital is based on the
26 proforma test year operation and maintenance expenses.

27

28 Q. Please explain Schedule 3B.

29

30 A. Schedule 3B shows account title, description and amounts. In recent years,
31 LRWC has deferred various expenditures, mostly associated with certain regulatory
32 proceedings, except for the West Point (“WP”) dry well. The total miscellaneous
33 deferred debits amounts total \$88,097. For those costs associated with specific
34 proceedings (DW 15-209 Step 2 - \$2,145, IR 19-005 ROE Petition - \$50,835 and
35 DW 18-056 Tax Act - \$18,526 amounting to \$71,506, LRWC is proposing to add
36 such amount to rate base and amortize and recover such costs over a 5 year
37 period. Arguably, some of these costs can/should be recovered as part of rate
38 case expenditures, but LRWC decided to exclude such costs from this
39 proceeding’s rate case costs and to recover such costs over a longer period of time
40 to lessen the impact on customers. In 2012 LRWC was looking for a new source
41 of supply for its WP customers. Unfortunately, LRWC was not successful. As
42 such, LRWC is proposing to add such amounts to rate base and recover such
43 expenditures over a 20 year period.

44

45

46

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6
7 Q. Please explain Schedules 3D & 3E.

8
9 A. Schedule 3D shows LRWC division numbers, names, PUC account numbers,
10 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
11 tax amounts (m & p). In total, it shows 2019 additions to plant amounting to
12 \$161,340 and the related depreciation and property taxes.

13
14 Schedule 3E shows PUC account numbers and descriptions, plant costs and
15 related depreciation. In total, it shows 2019 retirements to plant amounting to
16 \$114,627 and the related depreciation.

17
18 Q. Please explain Schedules 3F & 3G.

19
20 A. Schedule 3F shows LRWC division numbers, names, PUC account numbers,
21 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
22 tax amounts (m & p). In total, it shows 2020 additions to plant as of 9/30/20
23 amounting to \$189,387 and the related depreciation and property taxes.

24
25 Schedule 3G shows PUC account numbers and descriptions, plant costs and
26 related depreciation. In total, it shows 2020 retirements to plant as of 9/30/20
27 amounting to \$26,741 and the related depreciation.

28
29 Q. Please explain Schedules 3H & 3I.

30
31 A. Schedule 3H shows LRWC division numbers, names, PUC account numbers,
32 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
33 tax amounts (m & p). In total, it shows projected 2021 additions to plant
34 amounting to \$158,000 and the related depreciation and property taxes.

35
36 As indicated earlier, in 2021 LRWC anticipates that certain plant will be retired.
37 LRWC has yet to determine what plant and the related original costs. At an
38 appropriate time during the proceeding, LRWC will update the 2021 retirements
39 to plant and any related depreciation.

40
41 Q. Please explain Schedules 3J.

42
43 A. Schedule 3J shows the computation of cash working capital for 2019 proforma
44 amount and 2019, 2018 and 2017 actual amounts. The proforma cash working
45 capital is based on the proforma test year operation and maintenance expenses.

46

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

9 A. See Total Company Schedule 4, which reflects the overall rate of return for both
10 the actual test year and the proforma test year.
11

12 Q. Please explain the Report of Proposed Rate Changes for LRWC.
13

14 A. If LRWC's filing is approved as submitted, its total water Operating Revenues
15 will amount to \$1,660,846. The Total Sales of Water amounts to \$1,612,772 of
16 which \$1,402,004 comes from LRWC's 1,702 unmetered and metered customers.
17

18 Q. Is LRWC proposing any changes to the methodology used in calculating the
19 rates?
20

21 A. No. LRWC is generally using the same methodology. It is applying the rate
22 increase to the various components of rates.
23

24 Q. When is LRWC proposing that the new rates be effective?
25

26 A. LRWC is proposing that the new rates be effective February 15, 2021.
27

28 Q. Is there anything that you would like to discuss?
29

30 A. No.
31
32
33
34
35
36
37
38
39
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41
42
43
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46

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6
7 **Dockham Shores (“DS”)**

8
9 Q. What do the DS schedules show?

10
11 A. The schedule entitled “Computation of Revenue Deficiency for the Test Year
12 ended December 31, 2019,” summarizes the supporting schedules. The actual
13 revenue deficiency for DS for the test year amounts to \$46,063. It is based upon
14 an actual test year with a 13 month average rate base of \$333,982 as summarized
15 in Schedule 3, column o. DS’s actual rate of return is 8.69% for the actual test
16 year. The rate of return of 8.69%, when multiplied by the rate base of \$333,982,
17 results in an operating income requirement of \$29,007. As shown on Schedule 1,
18 column b, line 19, the actual net operating income for DS for the test year was
19 (\$17,056). The operating income required, less the net operating income, results
20 in an operating income deficiency before taxes of \$46,063. DS did not calculate
21 the tax effect of the revenue deficiency, resulting in a revenue deficiency for DS
22 of \$46,063.

23
24 The proforma revenue deficiency for the DS for the test year amounts to zero. It
25 is based upon a proformed test year rate base of \$366,636, as summarized in
26 Schedule 3, column q. DS is utilizing a proformed rate of return of 8.79% for the
27 proformed test year. The proformed rate of return of 8.79% when multiplied by
28 the rate base of \$366,636, results in an operating net income requirement of
29 \$32,232. As shown on Schedule 1, column d, line 19 the proformed net operating
30 income for DS for the test year is \$32,232. The operating income required, less
31 the net operating income, results in a deficiency of zero. The tax effect of the
32 deficiency is zero, resulting in a revenue deficiency for DS of zero.

33
34 Q. Would you please explain DS Schedule 1 and supporting schedules?

35
36 A. Schedule 1 reflects DS’s Operating Income Statement. Column b shows the
37 actual test year results for DS. Column c shows the proforma adjustments for
38 known and measurable changes to test year revenues and expenses. The proforma
39 adjustments are further supported by schedule 1A – 1E. Column d shows the
40 proforma test year results. Column e is actual results for 2018.

41
42 During the twelve months ended December 31, 2019, the actual Total Operating
43 Revenues amounted to \$38,808, an increase of \$1,968 over 2018. The increase is
44 due to increased water consumption.

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7

8 DS's total operating expenses amounted to \$55,864, an increase of \$4,305 over
9 2018. The increase in total operating expenses was due to increases in pumping
10 and treatment expenses. The 2019 DS Net Operating Income (Loss) amounted to
11 (\$17,056). DS's Net Income (Loss) for 2018 was (\$14,719).

12

13

14 The Company has made 2 proforma adjustments to operating revenues
15 totaling \$58,013. The specific proforma adjustments are identified on the
16 operating revenues schedule (Schedule 1A). A brief explanation is as follows:

17

18

19 Proforma Adjustment to Revenues

20

21

22 1. Sales of Water – Special Contract - Property Owners Association at
23 Swissevale, Inc. ("POASI") – (\$0).

24

25

26 2. Sales of Water – Amount Necessary to Earn Return and Cover Operating
27 Costs - \$57,211.

28

29

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

33

34

35 Total Proforma Adjustment to Water Sales is \$57,211.

36

37

38 3. Rate Case Surcharge – (\$0).

39

40

41 4. DW 18-056 Tax Savings Refund - \$0.

42

43

44 5. Revenue from Contract Work - \$802.

45

46

47 The Company credits revenue from contract work to PUC account 415,
48 Revenues from ... Contract Work. Since account 415 is reflected in Other
49 Income and Expenses, the Company is reclassifying the revenues to Other Water
50 Revenues. The expenses associated with such contract work are reflected in test
51 year expenses.

52

53

54 The Total Proforma Adjustments to Other Water Revenues amounts to
55 \$802. Total Proforma Adjustments to Operating Revenue amounts to \$58,013.

56

57

58

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6
7 The Company has made 8 proforma adjustments to operating expenses
8 totaling \$8,724. The specific proforma adjustments are identified on the
9 operating expenses schedule (Schedule 1B). A brief explanation is as follows:

10
11 Proforma Adjustments to Expense

- 12
13 1. Operating and Maintenance Expenses - Wages – \$0.
14
15 2. Operating and Maintenance Expenses - Benefits – \$0.
16
17 3 - 6. Operating and Maintenance Expense – Treatment Expenses (\$2,346),
18 T&D Expenses (\$185), Customer Accounts Expenses (\$73) and A&G Expenses
19 \$793.

20
21 When reviewing test year expenses, certain expenses were significantly
22 different as compared to 2018. As such, DS is proposing a 2 year average of such
23 expenses. Treatment expenses can vary from year to year, particularly with
24 respect to certain water tests that are scheduled at 2, 3 & 5 year intervals. T&D
25 expenses can also vary from year to year, particularly as it pertains to mains and
26 services breaks. Bad debt expenses can also vary. A&G expenses, particularly
27 outside services, can vary as well. DS is proposing a 2 year average to smooth
28 out the variations and to end up at an amount likely to represent an appropriate
29 amount going forward. See Sch 1C for the 2019, 2018 and 2 year average
30 amounts.

- 31
32 7. Operating and Maintenance – Regulatory Commission – (\$0).
33
34 8. Operating and Maintenance – Regulatory Commission – \$1,129.
35

36 In recent years, DS has deferred expenditures associated with DW 16-619.
37 See Sch 3B for account titles, descriptions and amounts. The total miscellaneous
38 deferred debits amounts total \$5,644. DS is proposing to amortize and recover
39 such costs over a 5 year period. The annual amortization amounts to \$1,129
40 (\$5,644 / 5). Arguably, these costs can/should be recovered as part of rate case
41 expenditures, but DS decided to exclude such costs from this proceeding's rate
42 case costs and to recover such costs over a longer period of time to lessen the
43 impact on customers.

- 44
45 9. PUC Audit Costs - \$0.
46

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6
7 Total Proforma Adjustments to O&M Expenses are (\$682).

8
9 10. Depreciation Expense – 2019 Additions to Plant associated with
10 Organization Costs - \$1,794.

11
12 In 2016 and 2017 DS incurred \$35,876 of acquisition costs associated with
13 the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement
14 in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC “Staff will
15 examine and evaluate, in the context of the impending rate case, the costs incurred
16 relative to the original acquisition and financing of DS ...” DS is proposing to
17 recover such DS costs over 20 years, resulting in an annual amortization of
18 \$1,794. See Sch 3C.

19
20 11. Depreciation Expense – 2019 Additions to Plant - \$0.

21
22 12. Depreciation Expense – 2019 Retirements to Plant – (\$0).

23
24 13. Depreciation Expense – 2020 Additions to Plant - \$0.

25
26 14. Depreciation Expense – 2020 Retirements to Plant – (\$0).

27
28 15. Depreciation Expense – 2021 Additions to Plant - \$0.

29
30 16. Depreciation Expense – 2021 Retirements to Plant – (\$0).

31
32 Total Proforma Adjustments to Depreciation Expenses are \$1,794.

33
34 17. Taxes other than Income – State Utility Property Taxes - \$0.

35
36 18. Taxes other than Income – Municipal Property Taxes - \$0.

37
38 19. Taxes other than Income - Payroll Taxes - \$0.

39
40 20/21. Federal Income and State Business Taxes - \$7,612.

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6
7 With the proposed increase in revenue offset by the proposed increase in
8 expenses, there is also a related increase in the federal income and state business
9 taxes. The increase in federal income taxes represents the additional tax liability
10 due to the increase in taxable income. The increase in state business taxes
11 represents the additional tax liability due to the increase in gross profits. See Sch
12 1D & 1E.

13
14 The total proforma adjustments to Operating Expenses amounts to \$8,724.

15
16 The net of the proforma adjustments to operating revenue \$58,013 and the
17 proforma adjustments to operating expenses \$8,724 results in net proforma
18 adjustment of \$49,289. When the net operating income associated with the
19 proforma adjustments is added to net operating income from the test year, the
20 proforma test year net operating income totals \$32,233. The proforma test year
21 net operating income of \$32,233 allows DS to cover its expenses and earn a
22 8.79% return on its investments.

23
24 Q. Does that complete your description of the proforma adjustments to revenues and
25 expenses?

26
27 A. Yes.

28
29 Q. Are there additional schedules that support Schedule 1.

30
31 A. Yes. Schedule 1C identifies certain operating expenses that were different as
32 compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year
33 average amounts. DS is proposing a 2 year average of such expenses. A review
34 of other operating expenses seemed to indicate that such other expenses are
35 normal and reoccurring and appropriate for future years.

36
37 Schedule 1D shows the income tax computation. The proforma total rate base
38 amounts to \$366,636. See Schedule 3. The proforma weighted average cost rate
39 for equity capital is 6.86% (See Schedule 4). When the proforma weighted
40 average cost rate for equity capital of 6.86% is applied to the proforma total rate
41 base, the proforma net operating income required amounts to \$25,163. When the
42 tax multiplier of 37.14% is applied to the proforma net operating income required,
43 it produces the total tax of \$9,346, which represents the amount of tax needed on
44 the proforma net operating income required. The sum of the proforma net
45 operating income required plus the total tax amount results in taxable income
46 required before income taxes. The business profits tax at 7.70% amounts to

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7 \$2,657 and the federal income tax at 21% amounts to \$6,689.

8
9 Schedule 1E shows effective tax factor including the federal and state corporate
10 tax rates.

11
12 Q Please continue with an explanation of Schedule 3, Rate Base and the supporting
13 schedule.

14
15 A. Schedule 3 reflects the DS's Rate Base for both the actual 13 month average test
16 year and the 2019 proforma test year. Columns b – n shows the actual month end
17 balances. Column o shows the 13 months average balances. Column p shows
18 the proforma adjustments. Column q shows the 2019 proforma balances. The
19 balances are further supported by Schedules 3A – 3D.

20
21 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
22 plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant
23 Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred
24 Debits, less Deferred Taxes and less Contributions in Aid of Construction plus
25 Accumulated Amortization of CIAC and Cash Working Capital.

26
27 The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base
28 amounts to \$333,982 and \$366,636, respectively.

29
30 Q. Would you please explain Schedule 3A, Rate Base Adjustments?

31
32 A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my
33 testimony, DS believes that all assets placed in service during the test year should
34 be fully reflected in rate base and a full year's depreciation on such assets should
35 be fully reflected in depreciation expense and accumulated depreciation.
36 Likewise, DS believes that other rate base items should be fully reflected in rates.
37 As such, DS has adjusted the Actual 13 Month Average Balances to Year End
38 Balances. The rate base items affected by the reflection of year end balances are
39 (1) plant in service, (7) accumulated depreciation, (14) accumulated amortization
40 of utility plant in service, (15) material and supplies, (16) miscellaneous deferred
41 debits, (17) CIAC, (18) AA of CIAC, (18 - 21) accumulated deferred income
42 taxes.

43
44 In addition to the proforma adjustments to rate base for the year end balances, DS
45 made a few other proforma adjustments as follows:
46

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7

2. Plant in Service – Acquisition Costs - \$35,876.

8

9

10

11

12

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16

17

18

19

8. Accumulated Depreciation – Half year depreciation of organization costs – (\$897).

20

21

22

23

DS is proposing to add the organization costs of \$35,876 to rate base and recover such DS costs over 20 years, resulting in an annual amortization of \$1,794 and ½ year amortization to accumulated depreciation. See Sch 3C.

24

25

26

27

28

29

30

31

22. Cash Working Capital – (\$140).

32

33

Q. Please explain Schedule 3B.

34

35

36

37

38

39

40

41

42

43

44

45

46

A. Schedule 3B shows account title, description and amounts. In recent years, DS has deferred certain expenditures. The total miscellaneous deferred debits amounts total \$5,644. DS is proposing to add such amount to rate base and amortize and recover such costs over a 5 year period. Arguably, the costs can/should be recovered as part of rate case expenditures, but DS decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. As such, DS is proposing to add such amounts to rate base and recover such expenditures over a 5 year period.

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6

7 Q. Please explain Schedule 3C.

8

9 A. Schedule 3C shows account number, description and amounts. In 2016 and 2017
10 the Company incurred \$35,876 of acquisition costs associated with the purchase
11 of DS in NHPUC DW 16-619. The Company is proposing to transfer the
12 expenditures from PUC account 186 to PUC account 301.

13

14 Q. Please explain Schedules 3D.

15

16 A. Schedule 3D shows the computation of cash working capital for 2019 proforma
17 amount and 2019 and 2018. The proforma cash working capital is based on the
18 proforma test year operation and maintenance expenses.

19

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

21

22 A. See Total Company Schedule 4, which reflects the overall rate of return for both
23 the actual test year and the proforma test year.

24

25 Q. Please explain the Report of Proposed Rate Changes for DS.

26

27 A. If DS's filing is approved as submitted, its total water Operating Revenues will
28 amount to \$96,821. The Total Sales of Water amounts to \$95,842 and would
29 come from DS's 61 metered customers.

30

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

32

33 A. No. DS is generally using the same methodology. It is applying the rate increase
34 to the various components of rates.

35

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

37

38 A. DS is proposing that the new rates be effective February 15, 2021.

39

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

41

42 A. No.

43

44

45

46

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7 **Wildwood Water (“WW”)**

8
9 Q Then, would you please summarize the WW schedules?

10
11 A Yes. The schedule entitled “Computation of Revenue Deficiency for the Test
12 Year ended December 31, 2019,” summarizes the supporting schedules. The
13 actual revenue deficiency for WW for the test year amounts to \$11,614. It is
14 based upon an actual test year with a 13 month average rate base of \$33,253 as
15 summarized in Schedule 3, column o. WW’s actual rate of return is 8.69% for the
16 actual test year. The rate of return of 8.69%, when multiplied by the rate base of
17 \$33,253, results in an operating income requirement of \$2,888. As shown on
18 Schedule 1, column b, line 19, the actual net operating income for WW for the
19 test year was (\$8,726). The operating income required, less the net operating
20 income, results in an operating income deficiency before taxes of \$11,614. WW
21 did not calculate the tax effect of the revenue deficiency, resulting in a revenue
22 deficiency for WW of \$11,614.

23
24 The proforma revenue deficiency for the WW for the test year amounts to zero. It
25 is based upon a proformed test year rate base of \$297,394, as summarized in
26 Schedule 3, column q. WW is utilizing a proformed rate of return of 8.79% for
27 the proformed test year. The proformed rate of return of 8.79% when multiplied
28 by the rate base of \$297,394, results in an operating net income requirement of
29 \$26,145. As shown on Schedule 1, column d, line 19 the proformed net operating
30 income for WW for the test year is \$26,145. The operating income required, less
31 the net operating income, results in a deficiency of zero. The tax effect of the
32 deficiency is zero, resulting in a revenue deficiency for WW of zero.

33
34 Q. Would you please explain WW Schedule 1 and supporting schedules?

35
36 A Schedule 1 reflects WW’s Operating Income Statement. Column b shows the
37 actual test year results for WW. Column c shows the proforma adjustments for
38 known and measurable changes to test year revenues and expenses. The proforma
39 adjustments are further supported by schedule 1A – 1E. Column d shows the
40 proforma test year results. Column e is actual results for 2018.

41
42 During the twelve months ended December 31, 2019, the actual Total Operating
43 Revenues amounted to \$26,039, an increase of \$12,996 over 2018. The increase
44 is due to full year of revenue in 2019.

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7 WW's total operating expenses amounted to \$34,765, an increase of \$18,337 over
8 2018. The increase in total operating expenses was due to a full year of expenses.
9 The 2019 WW Net Operating Income (Loss) amounted to (\$8,726).

10

11 The Company has made 2 proforma adjustments to operating revenues
12 totaling \$55,538. The specific proforma adjustments are identified on the
13 operating revenues schedule (Schedule 1A). A brief explanation is as follows:

14

15 Proforma Adjustment to Revenues

16

17 1. Sales of Water – Special Contract - Property Owners Association at
18 Swissevale, Inc. (“POASI”) – (\$0).

19

20 2. Sales of Water – Amount Necessary to Earn Return and Cover Operating
21 Costs - \$54,737.

22

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

26

27 Total Proforma Adjustment to Water Sales is \$54,737.

28

29 3. Rate Case Surcharge – (\$0).

30

31 4. DW 18-056 Tax Savings Refund - \$0.

32

33 5. Revenue from Contract Work - \$801.

34

35 The Company credits revenue from contract work to PUC account 415,
36 Revenues from ... Contract Work. Since account 415 is reflected in Other
37 Income and Expenses, the Company is reclassifying the revenues to Other Water
38 Revenues. The expenses associated with such contract work are reflected in test
39 year expenses.

40

41 The Total Proforma Adjustments to Other Water Revenues amounts to
42 \$801. Total Proforma Adjustments to Operating Revenue amounts to \$55,538.

43

44 The Company has made a number of proforma adjustments to operating
45 expenses totaling \$20,667. The specific proforma adjustments are identified on
46 the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

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7

Proforma Adjustments to Expense

8

9

1. Operating and Maintenance Expenses - Wages – \$0.

10

11

2. Operating and Maintenance Expenses - Benefits – \$0.

12

13

3 - 6. Operating and Maintenance Expense – Treatment Expenses (\$788), T&D Expenses (\$239), Customer Accounts Expenses (\$0) and A&G Expenses \$0.

14

15

16

When reviewing test year expenses, certain expenses were significantly different as compared to 2018. As such, WW is proposing a 2 year average of such expenses. Treatment expenses can vary from year to year, particularly with respect to certain water tests that are scheduled at 2, 3 & 5 year intervals. T&D expenses can also vary from year to year, particularly as it pertains to mains and services breaks. See Sch 1C for the 2019, 2018 and 2 year average amounts.

17

18

19

20

21

22

23

7. Operating and Maintenance – Regulatory Commission – \$0.

24

25

8. Operating and Maintenance – Regulatory Commission – \$0.

26

27

9. PUC Audit Costs - \$0.

28

29

Total Proforma Adjustments to O&M Expenses are (\$1,026).

30

31

10. Depreciation Expense – 2019 Additions to Plant associated with Organization Costs - \$1,794.

32

33

34

In 2017 and 2018, the Company incurred \$14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to recover such WW costs over 20 years, resulting in an annual amortization of \$733. See Sch 3B.

35

36

37

38

39

11. Depreciation Expense – 2019 Additions to Plant - \$0.

40

41

12. Depreciation Expense – 2019 Retirements to Plant – (\$0).

42

43

44

45

46

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7

13. Depreciation Expense – 2020 Additions to Plant - \$216.

8

9

10

The WW is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, WW has placed \$2,161 into service. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 9/30/20 plant amount to \$216. See Sch. 3C. At an appropriate time during the proceeding, WW will update the 2020 addition to plant as of 12/31/20.

11

12

13

14

15

16

17

14. Depreciation Expense – 2020 Retirements to Plant – (\$0).

18

19

15. Depreciation Expense – 2021 Additions to Plant - \$10,639.

20

21

22

23

24

In 2021 WW anticipates placing into service \$260,000 of plant associated with pump station replacemen. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 2021 plant amount to \$10,639. See Sch. 3E.

25

26

16. Depreciation Expense – 2021 Retirements to Plant – (\$0).

27

28

29

30

31

In 2021 WW anticipates that certain plant will be retired. WW has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, WW will update the 2021 retirements to plant and any related depreciation. See Sch. 3F.

32

33

Total Proforma Adjustments to Depreciation Expenses are \$11,589.

34

35

17. Taxes other than Income – State Utility Property Taxes - \$1,659.

36

37

38

39

40

41

42

43

44

45

46

In 2019 WW incurred \$341 in state utility property taxes. With the 2020 and 2021 additions to plant, the Company anticipates that the state utility property taxes will increase by \$13 and \$1,646, respectively. As such, the Company has prepared a proforma adjustment for \$1,659. See column (m) on Schedules 3C & 3E for the calculation.

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7 18. Taxes other than Income – Municipal Property Taxes - \$2,599.

8

9 In 2019 the Company incurred \$903 in municipal property taxes. With the
10 2020 and 2021 additions to plant, the Company anticipates that the municipal
11 utility property taxes will increase by \$20 and \$2,578, respectively. As such, the
12 Company has prepared a proforma adjustment for \$2,599. See column (p) on
13 Schedules 3C, & 3E for the calculation.

14

15 19. Taxes other than Income - Payroll Taxes - \$0.

16

17 20/21. Federal Income and State Business Taxes - \$5,847.

18

19 With the proposed increase in revenue offset by the proposed increase in
20 expenses, there is also a related increase in the federal income and state business
21 taxes. The increase in federal income taxes represents the additional tax liability
22 due to the increase in taxable income. The increase in state business taxes
23 represents the additional tax liability due to the increase in gross profits. See Sch
24 1D & 1E.

25

26 The total proforma adjustments to Operating Expenses amounts to
27 \$20,667.

28

29 The net of the proforma adjustments to operating revenue \$55,538 and the
30 proforma adjustments to operating expenses \$20,667 results in net proforma
31 adjustment of \$34,871. When the net operating income associated with the
32 proforma adjustments is added to net operating income from the test year, the
33 proforma test year net operating income totals \$26,145. The proforma test year
34 net operating income of \$26,145 allows WW to cover its expenses and earn a
35 8.79% return on its investments.

36

37 Q. Does that complete your description of the proforma adjustments to revenues and
38 expenses?

39

40 A. Yes.

41

42

43

44

45

46

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6
7 Q. Are there additional schedules that support Schedule 1.

8
9 A. Yes. Schedule 1C identifies certain operating expenses that were different as
10 compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year
11 average amounts. WW is proposing a 2 year average of such expenses. A review
12 of other operating expenses seemed to indicate that such other expenses are
13 normal and reoccurring and appropriate for future years.

14
15 Schedule 1D shows the income tax computation. The proforma total rate base
16 amounts to \$297,394. See Schedule 3. The proforma weighted average cost rate
17 for equity capital is 6.86% (See Schedule 4). When the proforma weighted
18 average cost rate for equity capital of 6.86% is applied to the proforma total rate
19 base, the proforma net operating income required amounts to \$20,410. When the
20 tax multiplier of 37.14% is applied to the proforma net operating income required,
21 it produces the total tax of \$7,581, which represents the amount of tax needed on
22 the proforma net operating income required. The sum of the proforma net
23 operating income required plus the total tax amount results in taxable income
24 required before income taxes. The business profits tax at 7.70% amounts to
25 \$2,155 and the federal income tax at 21% amounts to \$5,426.

26
27 Schedule 1E shows effective tax factor including the federal and state corporate
28 tax rates.

29
30 Q Please continue with an explanation of Schedule 3, Rate Base and the supporting
31 schedule.

32
33 A. Schedule 3 reflects the WW's Rate Base for both the actual 13 month average test
34 year and the 2019 proforma test year. Columns b – n shows the actual month end
35 balances. Column o shows the 13 months average balances. Column p shows
36 the proforma adjustments. Column q shows the 2019 proforma balances. The
37 balances are further supported by Schedules 3A – 3G.

38
39 The rate base consists of Utility Plant in Service less Accumulated Depreciation,
40 plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant
41 Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred
42 Debits, less Deferred Taxes and less Contributions in Aid of Construction plus
43 Accumulated Amortization of CIAC and Cash Working Capital.

44
45 The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base
46 amounts to \$33,253 and \$297,394, respectively.

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6
7 Q. Would you please explain Schedule 3A, Rate Base Adjustments?

8
9 A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my
10 testimony, WW believes that all assets placed in service during the test year
11 should be fully reflected in rate base and a full year's depreciation on such assets
12 should be fully reflected in depreciation expense and accumulated depreciation.
13 Likewise, WW believes that other rate base items should be fully reflected in
14 rates. As such, WW has adjusted the Actual 13 Month Average Balances to Year
15 End Balances. The rate base items affected by the reflection of year end balances
16 are (1) plant in service, (7) accumulated depreciation, (14) accumulated
17 amortization of utility plant in service, (15) material and supplies, (16)
18 miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21)
19 accumulated deferred income taxes.
20

21 In addition to the proforma adjustments to rate base for the year end balances,
22 WW made a few other proforma adjustments as follows:

23
24 2. Plant in Service – Acquisition Costs - \$14,664.

25
26 In 2017 and 2018, WW incurred \$14,664 of acquisition costs associated
27 with the purchase of WW in NHPUC DW 17-176. WW is proposing to transfer
28 the amounts out of account 186, miscellaneous deferred debits and into 301,
29 organization costs. WW is also proposing to recover such WW costs over 20
30 years, resulting in an annual amortization of \$2,527. See Sch 3B.
31

32 3. Plant in Service – 2020 Additions to Plant - \$2,161.

33
34 As of 9/30/20, WW has placed \$2,161 into service. None of the assets
35 placed in service were revenue producing assets. See Sch. 3C. WW is proposing
36 to add the 2020 addition to rate base. At an appropriate time during the
37 proceeding, WW will update the 2020 additions to plant as of 12/31/20.
38

39 5. Plant in Service – 2021 Additions to Plant - \$260,000.

40
41 In 2021 WW anticipates placing into service \$260,000 of plant associated
42 pump station replacement. None of the assets placed in service were revenue
43 producing assets. See Sch. 3E. WW is proposing to add the 2021 additions to
44 rate base.
45
46

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6
7 6. Plant in Service – 2021 Retirements to Plant – (\$...).

8
9 In 2021 WW anticipates that certain plant will be retired. WW has yet to
10 determine what plant and the related original costs. At an appropriate time during
11 the proceeding, WW will update the 2021 retirements to plant and any related
12 depreciation. See Sch. 3F.

13
14 8. Accumulated Depreciation – Half year depreciation of organization costs
15 – (\$367).

16
17 WW is proposing to add the organization costs of \$14,664 to rate base and
18 recover such WW costs over 20 years, resulting in an annual amortization of \$733
19 and ½ year amortization to accumulated depreciation. See Sch 3B.

20
21 10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions –
22 (\$216).

23
24 WW is proposing to include the annual depreciation expense associated
25 with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on
26 the 9/30/20 plant amount to (\$216). See Sch. 3C. At an appropriate time during
27 the proceeding, WW will update the 2020 addition to plant as of 12/31/20.

28
29 12. Accumulated Depreciation – 2021 Additions to Plant – (\$10,639).

30
31 In 2021 WW anticipates placing into service \$260,000 of plant associated
32 with pump station replacement. The annual depreciation expenses on the 2021
33 plant amount to \$10,639. See Sch. 3E.

34
35 22. Cash Working Capital – (211).

36
37 WW adjusted cash working capital for the proforma increase in operating
38 and maintenance expenses. See Sch 3G. Schedule 3G shows the computation of
39 cash working capital for 2019 proforma amount and 2019 and 2018. The
40 proforma cash working capital is based on the proforma test year operation and
41 maintenance expenses.

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6
7 Q. Please explain Schedule 3B.

8
9 A. Schedule 3C shows account number, description and amounts. In 2017 and 2018
10 the Company incurred \$14,664 of acquisition costs associated with the purchase
11 of WW in NHPUC DW 17-176. WW is proposing to transfer the expenditures
12 from PUC account 186 to PUC account 301.

13
14 Q. Please explain Schedules 3C & 3D.

15
16 A. Schedule 3C shows LRWC division numbers, names, PUC account numbers,
17 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
18 tax amounts (m & p). For WW, it shows 2020 additions to plant as of 9/30/20
19 amounting to \$2,161 and the related depreciation and property taxes.

20
21 Schedule 3D shows PUC account numbers and descriptions, plant costs and
22 related depreciation. For WW, it shows 2020 retirements to plant as of 9/30/20
23 amounting to \$0 and the related depreciation.

24
25 Q. Please explain Schedules 3E & 3F.

26
27 A. Schedule 3E shows LRWC division numbers, names, PUC account numbers,
28 plant amounts (columns d-f), depreciation amounts (columns h-k) and property
29 tax amounts (m & p). For WW, it shows projected 2021 additions to plant
30 amounting to \$260,000 and the related depreciation and property taxes.

31
32 As indicated earlier, in 2021 WW anticipates that certain plant will be retired.
33 WW has yet to determine what plant and the related original costs. At an
34 appropriate time during the proceeding, WW will update the 2021 retirements to
35 plant and any related depreciation.

36
37 Q. Please explain Schedules 3G.

38
39 A. Schedule 3G shows the computation of cash working capital for 2019 proforma
40 amount and 2019 and 2018. The proforma cash working capital is based on the
41 proforma test year operation and maintenance expenses.

42
43 Q. Would you please explain Schedule 4, Rate of Return Information?

44
45 A. See Total Company Schedule 4, which reflects the overall rate of return for both
46 the actual test year and the proforma test year.

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6
7 Q. Please explain the Report of Proposed Rate Changes for WW.

8
9 A. If WW's filing is approved as submitted, its total water Operating Revenues will
10 amount to \$81,577. The Total Sales of Water amounts to \$80,382 and would
11 come from WW's 49 unmetered customers.

12
13 Q. Is WW proposing any changes to the methodology used in calculating the rates?

14
15 A. No. WW is generally using the same methodology. It is applying the rate
16 increase to the various components of rates.

17
18 Q. When is WW proposing that the new rates be effective?

19
20 A. WW is proposing that the new rates be effective February 15, 2021.

21
22 Q. Is there anything that you would like to discuss?

23
24 A. No.

25
26 **OTHER MATTERS**

27
28 Q. Is there anything else that the Company would like to address?

29
30 A. The Company is interested in exploring with the PUC Staff and any other parties
31 the possibility of billing monthly instead of billing quarterly. The Company is
32 also interested in exploring with the PUC Staff and any other parties the
33 possibility of meter program whereby water system that are not metered get
34 metered over time with a separate meter program recovery mechanism.

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6
7 **CONCLUSION**

8
9 Q. Would you please summarize what the Company is requesting in its rate filing?

10
11 A. The Company respectfully requests that the Commissioners approve the
12 consolidation of rates to all of the Company's water systems including Dockham
13 Shores and Wildwood Water. If the Commissioners approve the consolidation of
14 rates, the Company respectfully requests that the Commissioners also approve an
15 increase in revenues of \$260,172 or 19.69% from the Company's 1,812
16 unmetered and metered customers.

17
18 If the Commissioners do not approve the consolidation of rates, the Company
19 respectfully requests that the Commissioners approve an increase in revenues of
20 \$144,913 or 11.53%, \$57,211 or 148.10% and \$54,737 or 213.44% from the
21 Company's LRWC (w/o DS & WW), DS & WW, respectively.
22

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

24
25 A. No, there is nothing further.

26
27 Q. Does this conclude your testimony?

28
29 A. Yes.
30