Hampstead Area Water Company, Inc.

before the

New Hampshire Public Utilities Commission

DW 08-065

Direct Testimony of Stephen P. St. Cyr re: Temporary Rates

Q. Please state your name and address.

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

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

A. I am presently employed by St. Cyr & Associates, which primarily provides accounting, management, regulatory and tax services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water and sewer utilities among its cliental. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission ("PUC"). Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Massachusetts. I obtained my CPA certificate in Maryland.

Q. Is St. Cyr & Associates presently providing services to Hampstead Area Water Company, Inc. ("Company" or "HAWC")?

A. Yes. St. Cyr & Associates assist the Company in its year end closing and preparation of financial statement and tax returns. St. Cyr & Associates assist the Company in various regulatory filings including expansion of its franchise, financing of construction projects and adjusting rates. As part of its filing in this case, it has been engaged to prepare the testimony and schedules for temporary rates.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's efforts to increase rates on a temporary basis pending a final decision by the Public Utilities Commission on permanent rates.

Q. Would you please provide an overview of the temporary rate filing?

A. Yes. The temporary rate filing consists of the petition, testimony and schedules. The testimony generally describes the schedules. The schedules consisting of the Computation of Revenue Deficiency, Statement of Income, Rate Base, Rate of Return and Calculation of Rates.

Q. What is the proposed increase in the revenue requirement for temporary rates?

A. The proposed increase in the revenue requirement for temporary rates is $85,356 or 7.03% more than the presently authorized revenue.

Q. Are you familiar with the temporary rate filing and with the various schedules?

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

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

A. The Company continues to utilize the twelve months ended December 31, 2007.

Q. Would you summarize the schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2007".

A. Yes. This schedule summarizes the supporting schedules. The actual revenue deficiency for the test period amounts to $7,438. It is based upon an actual test year beginning and ending 2007 average rate base of $3,631,773 as summarized in Schedule 3. The Company is utilizing its actual rate of return of 4.81% for the actual test year. The actual rate of return of 4.81% when multiplied by the rate base of $3,631,773, results in an operating income requirement of $174,688. As shown on Schedule 1, the actual net operating income for the test period was $167,250. The operating income requirement less the net operating income results in an operating income deficiency of $7,438. The tax effect on the operating income deficiency is $0, resulting in a revenue deficiency of $7,438. The proforma revenue deficiency for the test year amounts to $0. For temporary rates, the Company made three adjustments to its rate base, including the adjustment for cash working capital, which increases due to increased proforma operating and maintenance expenses. With the three adjustments, the proforma rate base for temporary rates amounts to $3,666,443. For temporary rates, the Company adjusted the outstanding debt for the debt and related interest associated with the addition to plant (and rate base) for the wells at Bryant Woods and Dearborn Ridge. With the adjustments to debt and interest, the proforma cost of debt (and rate of return) amounts to 6.22%. As such, the rate of return of 6.22% when multiplied by the rate base of $3,666,443 results in an operating income requirement of $227,914. For temporary rates, the Company proposes to increase its revenue by $85,356 in order to allow the Company to recover its costs and to earn a fair and reasonable return on its investment. For temporary rates, the Company has determined that if the proposed increase in revenue is approved, the average annual amount for a residential customer will increase from $424.92 to $454.92, an increase of $29.87 or 7.03%.

Q. Would you please summarize Schedule 1, "Statement of Income", for the twelve months ended December 31, 2007?

A. The first column (Column b) of Schedule 1 shows the actual operating results of the Company from January 1, 2007 through December 31, 2007. The Company has filed its 2007 NHPUC Annual Report, which further supports the temporary rate filing. The Company had 2,858 customers at December 31, 2007. The Company reviewed a number of expense accounts in its preparation of the temporary rate filing. In its review, the Company determined that certain expenses needed to be adjusted in order to reflect what the Company is presently incurring.

Q. Please explain each of the proforma adjustments made to revenue as shown on Schedule 1, in the second column (Column c) and further supported on Schedule 1A, Page 1 of 3.

A. The Company made one proforma adjustment to revenue.

<u>Revenue</u>

The proforma adjustment to revenue represents the additional revenue of $85,356 needed to recover the increase in its costs and to earn a reasonable return on its rate base. The total proforma adjustment to revenue amounts to $85,356.

Q. Did the Company make any proforma adjustments to expenses?

A. Yes. The Company made a few proforma adjustments to expenses as follows:

Purchased Power

In 2007, the Company incurred $177,371 of purchased power expenses. The Company reviewed its kwh rate for electric service in May 2008 ($0.1434 per kwh) and compared it to its per kwh rate for electric service in May 2007 ($0.1392). The increase in the kwh rate represents approximately a 3% increase. The Company applied the 3% increase to its 2007 purchased power costs resulting in a proforma adjustment of $5,321.

Chemical Costs

In 2007, the Company incurred $11,917 of chemical costs. The chemical costs include 4,980 gallons of chlorine at a cost of $9,962. The most recent price per gallon of chlorine is $2.20 per gallon. The Company applied the most recent cost of $2.20 per gallon to the 4,980 gallons resulting in an increase in the cost of chlorine of $994.

Outside Services - Management

In 2007, the Company incurred $104,167 for management costs under the Company's management agreement with Lewis Builders, Inc. (Lewis) In 2007, Lewis added an information technology person to provide in house hardware and software support and services, and other computer expertise. This IT person supports all of Lewis' computer related activities, including those for the Company. Such computer activities include operating and maintaining the computer systems and telephone equipment, troubleshooting any problems with the hardware and software and interacting with third party hardware/software vendors. Lewis and the Company agreed that Lewis would charge $10,000 for such services. The Company began incurring such costs in August 2007. The proforma adjustment adds another seven months to the five months that are reflected in the test year.

Miscellaneous Expenses

In 2007, the Company incurred -$2,322 in miscellaneous expenses. The negative miscellaneous expense was due to the software program not being able to allocate labor burden (payroll taxes, etc.) correctly to time charged to various plant accounts. The purpose of the proforma adjustment is to eliminate the negative balance and to restore a reasonable amount of miscellaneous expense.

Salaries and Wages

In 2007, the Company incurred $197,235 in salaries and wages. During 2007, the Company made minor adjustments to salaries and wages. The net effect of the minor adjustments results in a 1.6% increase in salaries and wages. As such, the Company made a proforma adjustment of $3,156, 1.6% of the $197,235 in salaries and wages. The adjustment does not take into consideration any salaries and wage increases for 2008.

Vehicle Expenses

In 2007, the Company incurred $20,253 in vehicle expenses. Of the $20,253, $13,568 was for gasoline for the three vehicles. During the twelve months July 2007 – June 2008, the Company used 4,495 gallons of gas. With the recent, rapid increase in the price per gallon of gasoline, and the expectation that the price per gallon will remain high or go even higher, the Company anticipates that the same gallons used of gasoline will cost the Company $17,980, at $4 per gallon in 2008.

Depreciation Expense

In 2007, the Company incurred $332,650 in depreciation expense. The proforma adjustment to depreciation expense reflects the annual depreciation associated with the wells at Bryant Woods and Dearborn Ridge.

Taxes other than Income

The proforma adjustment to taxes other than income reflects the increase in state and local property taxes related to wells at Bryant Woods and Dearborn Ridge. The proforma adjustment to taxes other than income are further supported by Schedule 1B.

State Business Taxes

The proforma adjustment to income taxes reflects the increase in state business taxes associated with the increase in interest on the debt associated with the wells at Bryant Woods and Dearborn Ridge. The proforma adjustment to income taxes are further supported by Schedule 1B.

The Company made no other proforma adjustment to expenses. The total proforma adjustments to expenses amounts to $24,691.

Q. Does Column d of Schedule 1 represent the sum of the actual test year amounts (Column b) plus the proforma adjustments (Column c)?

A. Yes, it does.

Q. Does Column e and f represent the revenue and expenses for the twelve months ended December 31, 2006 and 2005, respectively?

A. Yes, it does.

Q. Would you please explain Schedule 2 entitled "Balance Sheet"?

A. Yes. This schedule shows the year end balances reflected on the balance sheets of the Company for 2007, 2006, and 2005.

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

A. Columns (b) and (c) show the actual balances of the rate base items as per the Company's internal financial statements. Column (d) shows the actual average beginning and ending 2007 balances, except for cash working capital, which reflects the cash working capital for 2007.

Column (e) shows the 2008 proforma adjustments. Column (f) shows the proforma beginning and ending 2007 balances. The rate base consists of Utility Plant, less Accumulated Depreciation, plus Cash Working Capital, Prepayments, and Accumulated Deferred Income Taxes – Assets and Net Contributions in Aid of Construction. The actual beginning and ending average rate base amounts to $3,631,773. The Company made three adjustments to rate base. The first adjustment to plant in service is $30,442. The specific costs are further supported by Schedule 3A. The second adjustment to accumulated depreciation reflects the depreciation associated with the $30,442 addition to plant. The third adjustment to cash working capital is $4,734. Working capital is determined by 75/365 days of operating expenses. The computation of working capital is shown on Schedule 3B. The proforma beginning and ending average rate base for temporary rates amounts to $3,666,443.

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

A. The Company's overall rates of return for temporary rates are 4.81% and 6.22%

for 2007 actual and 2007 proformed, respectively. It is derived from the weighted average cost rates associated with actual and proformed long term debt. The weighted average cost rates for common equity were not utilized due to the Company negative equity position. The Company's capital structure consists of Equity and Debt Capital. The Company has no short term debt. Its Equity Capital consists of $16,767 of Common Stock, $1,113,401 of Other Paid in Capital, and Retained Earnings of -$1,413,934. The Company has $3,205,855 of long term debt at year end. It consists of both related parties and unrelated parties loans, including a 2005 State Revolving Fund Loan for a water storage tank of $1,315,291 at 3.35% for 20 years. The Company is proposing for temporary rates that the weighted average rate of return be 6.22%.

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

A. Schedule 5A shows the date of the notes, the borrower and lender, the original note amount, note term, interest rate, outstanding balance at 12/31/07, 2007 interest expense, and cost rate. The total outstanding balance at 12/31/07 is $3,205,855. The total 2007 interest expense is $154,183. The total cost rate is 4.81%. Schedule 5B utilizes the same data as Schedule 5A, except that it adjusts the outstanding long term debt balances for debt and interest associated with the wells at Bryant Woods and Dearborn Ridge.

Q. Is the Company proposing to change the rate design?

A. No. The Company has applied the proposed rate increase for temporary rates to all its metered customers. The Company is not proposing to change its fire protection rates.

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

A. Yes, the Company is requesting a temporary revenue increase of $85,356, effective July 1, 2008. The temporary revenue increase of $85,356 enables the Company to earn a 6.22% proforma rate of return on its investment, reflected in a proforma rate base of $3,666,443. The average annual amount for a residential customer will increase from $424.92 to $454.78, an increase of $29.87 or 7.03%.

Q. Does this conclude your testimony?

A. Yes.