

**STATE OF NEW HAMPSHIRE**  
**PUBLIC UTILITIES COMMISSION**  
**EASTMAN SEWER COMPANY**

**DW 08-086**

**PETITION FOR APPROVAL OF FINANCING  
AND RATE INCREASES**

**PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,  
Biddeford, Me.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to support Eastman Sewer Company's ("Company" or  
"Eastman") effort to obtain Public Utilities Commission ("PUC") approval of  
financing from the Eastman Community Association ("ECA") and approval of an  
increase in the sewer rate and the capital reserve rate. My responsibilities include  
preparing the financial schedules and prefiled direct testimony which describes  
the financing and the rate increases and the financial schedules. In addition, I am  
prepared to testify in support of financing and rate increases.

- Q. Have you prepared testimony before this Commission?
- A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission, including requests for new and expanded franchises, requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for rate and step increases.
- Q. What is the purpose of your testimony?
- A. The purpose of my testimony is to support the Company's effort to borrow funds from ECA, which will allow the Company to make significant improvements to the sewer system in 2008 and 2009.
- Q. Please describe the 2008 and 2009 improvements to the sewer system.
- A. West Cove B Pump Installation: The lift station at West Cove B has been the most problematic component of the entire collection and treatment facility according to the system operator. The control panel has significant electrical issues and the duplex pumps have consistently had problems handling solids. A new 3" submersible pump was recently ordered for this lift station and it should be installed and operated. If the pump functions properly, a second pump should be ordered and installed to complete the duplex system. An initial investigation of the electrical system and control panel should be conducted by an outside professional to troubleshoot the existing setup. The estimated cost is based on an installation in the existing wet well and includes installation of the pump, all related plumbing, and all electrical work. The existing generator, alarm with dialer, and duplex controller would be left in place and are compatible with the proposed improvements.

Influent Flowmeter & pH Meter: The influent metering recommended is a requirement of the current New Hampshire Department of Environmental Services (NHDES) permit and must be constructed as soon as possible to comply with the permit requirements. The estimate for the metering system includes a 4' diameter manhole with a Palmer-Bowlus flume and an ultrasonic flowmeter to monitor influent flow volume. It also includes a pH probe with a stilling well to monitor influent pH. These devices will be powered via the power supply in the Headworks Building. The construction of the metering system, including excavation, bypass pumping, manhole installation, electrical work, backfill, and clean up has been included in the estimated costs.

Headworks Modifications: A Muffin Monster grinder should be installed in the existing channel within the next two years. The bar screen requires frequent maintenance and may not catch small solids. The proposed grinder is a low maintenance alternative that will provide improved treatment in the aerated lagoons by reducing the amount of solids entering the system. The estimated cost includes a Muffin Monster grinder suitable for up to 700 gpm, channel mounted frame assembly, and control panel. The cost of installing the grinder and frame, all electrical work, one day of start up service, and a one year warranty have been included in the estimated cost.

West Cove A Overflow Structure: The wet well at West Cove A Pump Station is metal and currently has some rust damage. It is difficult to determine if the wet well is infiltrating groundwater because there is typically sewage flowing into it. The wet well has been in place for over 30 years and will require replacement within the next 15 years. In addition to the deteriorating condition of the existing wet well, this station should include an overflow structure. The proposed improvement includes the installation of a new wet well and piping to connect the new wet well to the existing wet well. The new wet well would be used as an overflow structure during pump failure until the new pumps are installed. The new pumps would be installed in the new wet well. The old wet well would then be used as an overflow structure. The estimated cost includes the installation of a new concrete wet well adjacent to the existing one and the piping and valves required to connect the two structures.

West Cove A Pump Station: The pumping station at West Cove A has had few problems when compared to the rest of the collection system. The station does, however, have significant electrical issues and the pumps have failed in the past. A new VFD should be installed to replace the existing phase converter and a new duplex control panel should be installed. The existing pumps should be replaced and two different options for new pumps were investigated as a part of the research done for the Capital Improvements Recommendations report. The first option involves the installation of a Gorman Rupp Mini Station that includes duplex 4" centrifugal pumps in an aboveground enclosure. The second option is to install new duplex 4" submersible pumps and a new rail system. The estimated

costs for each option have been shown and the estimates include VFD for phase conversion and a duplex controller. The submersible pump alternative is recommended since it offers a considerable cost savings and very similar performance to the mini station. The existing generator and dialer alarm will remain in place.

Q. When does the Company anticipate beginning the construction of the improvements?

A. The Company anticipates that construction of the 2008 improvements will begin in spring/summer 2008. The Company anticipates that construction of the 2009 improvements will begin in spring/summer 2009.

Q. When does the Company anticipate completing the construction of the improvements?

A. The Company anticipates completion of the 2008 improvements in fall/winter 2008. The Company anticipates completion of the 2009 improvements in fall/winter 2009.

Q. What are the costs of the improvements?

A. The estimated costs are as follows:

West Cove B Pump Installation	\$7,209
Influent Flowmeter & pH Meter	33,500
Headworks Modifications	71,225
West Cove A Overflow Structure	59,800
West Cove A Pump Station	<u>66,846</u>
Total Estimated Costs	<u>\$238,580</u>

- Q. How much of the costs will be financed?
- A. All of the costs.
- Q. What is the source of financing?
- A. The Company expects to borrow the money from either a bank or the ECA.
- Q. Have the improvements been approved by the Company's Sewer Board?
- A. The Company's Sewer Board is considering such a resolution.
- Q. What are the expected terms and conditions of the financing?
- A. The length of the loan is 10 years. The interest rate is 7.00%.
- Q. How does the Company propose to recover its investment?
- A. The Company proposes to recover its investment through an increase in the capital reserve rate.
- Q. Briefly, please explain your understanding of the history of the capital reserve rate.
- A. At the time in which Eastman sought recovery of its investment in the original plant, the original plant was determined to be all contributed. With the determination that the plant was contributed and treated as contribution in aid of construction (CIAC), the CIAC offset the plant in rate base resulting no rate base. With no rate base, the Company had no means in which to fund minor replacements and/or improvements to plant. As such, the Public Utilities Commission ("PUC") Staff and the Company agreed, and the PUC approved, a mechanism known as a capital reserve rate whereby the Company would be allowed to charge its customers an amount in order to fund minor replacements and/or improvements to plant.

- Q. How much money did the capital reserve rate generate?
- A. The capital reserve rate generated \$2,502 per quarter or \$10,008 per year.
- Q. What did the Company do with the funds generated from the capital reserve rate?
- A. The Company separated the funds and invested such funds with Fidelity.
- Q. When the Company had a capital replacement/improvement, how did the Company access the funds?
- A. The Company provided the PUC Staff with information about the project and a request to fund the project. The PUC Staff reviewed the project and the request for funds and made a recommendation to the PUC. The PUC approved the project and the request for funds.
- Q. How much additional capital reserve funds will be required in order to recover the 2008 and 2009 improvements?
- A. The additional capital reserve funds needed are \$33,241. This amount will enable the Company to pay principal and interest on the ECA loan.
- Q. Has the Company determined the impact of the financing and the additions to plant on the Company's financial statements?
- A. Yes. I have prepared proforma financial statements identified as SPS 1 – SPS 2, which identify the impact of the financing and the additions to plant along with the specific journal entries (SPS 3).

Q. Would you please explain Schedule SPS 1, Page 1 of 2, entitled Balance Sheet – Assets and Other Debits?

A. Yes. Generally, column (a) identifies the account title and PUC account number. Column (b) identifies the actual December 31, 2007 account balances. Column (c) identifies the 2008 financing and capital reserve adjustments. Column (d) reflects the adjusted December 31, 2007 account balances for the 2008 financing and additions to plant. Column (e) identifies December 31, 2006 account balances. Column (f) identifies the December 31, 2005 account balances.

Q. Please explain the adjustments related to 2008 financing and capital reserve.

A. Schedule SPS 1, Page 1 of 2, contains 4 adjustments.

The first adjustment to Utility Plant for \$238,580 represents the total additions to plant in service for the costs of the improvements.

The second adjustment to Accumulated Depreciation for \$4,023 represents a half-year depreciation on the \$238,580 of plant additions.

The third adjustment to Cash of (\$6,123) is the net of the cash received from the ECA loan less payments for the new plant, for pursuing PUC approval of the financing and payment of increased property taxes.

The fourth adjustment to Miscellaneous Deferred Debits for \$4,500 is the net of the financing costs and the amortization of the financing costs.

In addition to the four adjustments, the Company placed the additional capital reserve funds in Special Deposits and relieves the Special Deposit account when it makes principal and interest payments on the ECA loan. The net of the

fund going into the Special Deposit account and funds going out of the Special Deposit account is zero.

Q. Please explain Schedule SPS 1, Page 2 of 2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1, Page 2 of 2.

Q. Please explain the adjustments related to the 2008 financing and capital reserve.

A. Schedule SPS 1, Page 2 of 2, contains 3 adjustments.

The first adjustment to Retained Earnings for (\$5,469) represents the net income impact of the various income statement transactions (i.e., depreciation, amortization of CIAC, taxes other than income and income taxes).

The second adjustment to Other Long Term Debt for \$221,498 represents the net amount of the borrowings of \$238,580 and the first year repayment of principal on the loan of \$17,082.

The third adjustment to net Contribution in Aid of Construction (“CIAC”) represents the addition of \$17,082 to CIAC less the amortization of CIAC of 288.

In addition to the three adjustments, the Company uses a Miscellaneous Operating Reserve account to reflect the amount of capital reserve funds collected from customers and to be used for capital projects. When the funds are used for capital projects, the Miscellaneous Operating Reserve account is charged and CIAC and interest expense is credited. The net of the transactions going into the Miscellaneous Operating Reserve account and transactions going out of the Miscellaneous Operating Reserve account is zero.

- Q. Would you please explain Schedule SPS 2, entitled Statement of Income?
- A. The description of the columns is the same as SPS 1.
- Q. Please explain the adjustments related to the 2008 financing and capital reserve. .
- A. There are 4 adjustments to the Statement of Income.

The net adjustment to revenue for the capital reserve is zero. The Company records the revenue associated with the capital reserve but then offsets that revenue with credit to Miscellaneous Operating Reserve. The Miscellaneous Operating Reserve represents a liability to use such funds for capital improvement.

The first adjustment to Depreciation Expense of \$4,023 represents the increase due to a half-year depreciation on the additions to plant.

The second adjustment to Amortization of CIAC of (\$288) represents the increase due to a half-year amortization on the contribution of plant.

The third adjustment to Taxes other than Income of \$1,234 represents the increase in state and local property taxes due to the increase in plant in service.

The fourth adjustment to Interest Expense of \$500 represents the Amortization of Debt Expense.

- Q. Please explain Schedule SPS-3, entitled Journal Entries.
- A. Schedule SPS-3 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the borrowing of funds, (2) the utilization of the funds for the additions to plant, (3) the repayment of the principal and interest on the loan, and (4) the

transactions effecting special deposits, miscellaneous operating reserve and contribution in aid of construction.

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

A. No.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 4 through 8 inclusive, with related pages and attachments?

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 is utilizing 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 \$16,520. It is based upon an actual test year beginning and ending 2007 average rate base of \$67,706, as summarized in Schedule 5. The Company is utilizing its actual rate of return of 10.00% for the actual test year. The actual rate of return of 10.00% when multiplied by the rate base of \$67,706, results in an operating income requirement of \$6,771. As shown on Schedule 7, the actual net operating income for the test period was (\$9,749). The operating income requirement less the net operating income results in an operating income deficiency of \$16,520. The Company assumed a tax effect on

the operating income deficiency of \$0, resulting in a revenue deficiency of \$16,520.

The proforma revenue deficiency for the test year amounts to \$0. The Company made four adjustments to its rate base, including an adjustment for cash working capital, which increases due to increased proforma operating and maintenance expenses. The Company adjusted the rate of return to reflect its proforma capital structure, its proforma cost of debt, and its authorized 10.00% cost of equity. The net of the adjustments to the capital structure and the adjustments to the cost rates results in a rate of return of 8.30%. As such, the rate of return of 8.30% when multiplied by an adjusted rate base of \$68,397, results in an operating income requirement of \$5,677. The Company increased its revenue by \$23,145 in order to allow the Company to recover its costs and to earn a fair and reasonable return on its investment. The Company has determined that if the proposed revenue is approved, the average annual amount for a residential customer will increase from \$223.32 to \$327.80, an increase of \$104.48 or 46.28%.

Q. Would you please summarize Schedule 5, "Rate Base"?

A. Columns (b) & (c) show the actual balances of the rate base items as per the Company's financial statements for the years 2007 and 2006. 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, Material and Supplies, Prepayments, Net Contributions in Aid of Construction and Accumulated Deferred Income Taxes. The actual beginning and ending average rate base amounts to \$67,706. The Company made four adjustments to rate base. The first adjustment to plant in service is \$238,580. These are the same additions that the Company is requesting approval to finance. The second adjustment to accumulated depreciation reflects the depreciation associated with the 2008 additions. The third adjustment to cash working capital is \$692. Working capital is determined by 75/365 days of operating expenses. The computation of working capital is shown on schedule 5A. The proforma beginning and ending average rate base amounts to \$68,397.

Q. Would you please explain Schedule 6 entitled "Rate of Return Information"?

A. The Company is proposing an overall rate of return of 8.30%. It is derived from the weighted average cost rates associated with the debt and equity components of the Company's capital structure. The Company's capital structure consists of Equity and Debt Capital. The Company has no short term debt. Its Equity Capital consists of \$8,000 of Common Stock, \$66,262 of Other Paid in Capital, and Retained Earnings of \$27,244. The Company added the proposed long term debt of \$221,498. The proposed long term has a 10 year term and an interest rate of 7%.

Q. Please explain Schedule 7, "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 rate filing. During the twelve months ended December 31, 2007, the Company operating revenues amounted to \$112,310, an increase of \$491. The Company's revenue has increased slightly in recent years due to the addition of a few customers. The Company customer base has remained stable. The Company had 535 customers at December 31, 2007.

The Company's operating expenses consist of operation and maintenance expenses, depreciation and amortization expenses, and taxes. Total 2007 operating expenses amounted to \$122,059, an increase of \$16,859 or 16%. Operation and maintenance expenses increased \$21,225, primarily due to increases in system operator costs, miscellaneous expenses, consulting costs and building and repair expenses. The Company's net operating income amounted to (\$9,749).

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

Q. Please explain each of the proforma adjustments made to revenue as shown on Schedule 7, in the second column (column c) and further supported on Schedule 7A.

A. The Company made one proforma adjustment to revenue.

Revenue

The proforma adjustment to revenue for \$23,145 represents the additional revenue 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 \$23,145.

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

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

Contracted Services

In 2007 Water System Operators, Inc., the sewer system operator began monitoring the system 7 days a week (rather than 3 days a week). The monthly fee for the increased monitoring increased from \$2,217 to \$3,500. Water System Operators began charging the increased fee in November 2007. During the test year (2007), the annual costs incurred were \$29,170 ( $\$2,217 \times 10 \text{ months} + \$3,500 \times 2 \text{ months}$ ). The costs for 2008 are expected to be \$42,000, resulting in a proforma adjustment of \$12,830.

Other Consulting Expenses

In 2007 the Company incurred \$5,333 of other consulting expenses. Upon further review, the Company realized that certain costs (\$1,916) reflected as other consulting costs were related to the financing and rate filing and should have been

deferred and recovered as either part of the cost of the financing or as part of rate case expenditures. In addition, certain other costs (\$1,255) were related to the engineering / capital study and should have been deferred and added to future plant. As such, the Company is adjusting its other consulting expenses to reflect the reduction of these costs that should have been deferred.

#### Building and Equipment Repairs

In 2007 the Company incurred \$5,333 of building and equipment repair expenses. The 2007 level of expense was higher due to more repairs than 2006 (\$2,606) and 2005 (\$4,182). While the Company expects that repairs will continue to be needed and at a relatively high level due to the aging of the system, the Company believes that an average of the three years, 2005 – 2007, results in a reasonable level of repair expense. As such, the Company averaged the repair expenses for the three years, resulting in a repair expense level of \$4,040 ( $\$12,121 / 3$ ). The proforma adjustment reduces the 2007 repair expense by \$1,293 ( $\$5,333 - \$4,040$ ).

#### Miscellaneous Expenses

In 2007 the Company incurred \$5,382 in miscellaneous expenses. The significant increase in miscellaneous expense was due to a \$5,000 payment to Eastman Community Association for reimbursement of an insurance deductible related to the backup of sewer into the basement of a condo unit. The backup of the sewer resulted from an April 2007 storm, the loss of power, the generator and the alarms. After much discussion, the Company agreed to pay the Eastman Community Association \$5,000 for resolution of the matter. The \$5,000 payment

is a one time payment that the Company does not expect to incur in future years.

As such, the proforma adjustment to miscellaneous expenses for \$5,000 represents the reduction of the one time costs.

#### Taxes other than Income

In 2007 the Company incurred \$2,667 and \$2,286 in state and local property taxes, respectively. With the addition of \$238,580 of new plant, the Company expects that the state and local property will increase. The local property tax rate that the Company paid with its most recent billing was \$11.85 per thousand of assessed value on building and land. The Company estimates that \$90,000 of the \$238,580 in improvements relates to the buildings, and would be subject to local property taxes. As such, the estimated local property tax increase would be \$1,067 ( $\$90,000 / 1,000 \times \$11.85$ ). Assuming that the state assesses the same \$90,000, the estimated state property tax increase would be \$167 ( $\$90,000 / 1,000 \times \$6.60$ ).

Therefore, the Company estimates that the increase in state and local property taxes to \$1,234. The Company is aware that the State is changing the way that it assesses utility property. As the Company learns more about the change in the State's approach to assessing utility property, it may have to change the amount of the proforma adjustment.

#### Federal Income Taxes and State Business Taxes

In 2007 the Company recorded federal income taxes and state business taxes of (\$1,080) and (\$760), respectively. The negative taxes were due to the reversal of tax expenses in prior years. The proforma adjustment attempts to reflect the level

of tax expense based on taxable income for the proforma test year. The Company expects, based on the taxable income for the proforma test year, that federal income tax and state business taxes will be \$790 and \$489, respectively. The proforma adjustment for federal income taxes and state business taxes are \$1,870 and \$1,249, respectively. Also, see Schedule 8 for the income tax computation.

- Q. What was the total of the proforma adjustments to expenses?
- A. The total proforma adjustments to expenses amounts to \$7,719.
- Q. Did the Company review its other expenses?
- A. Yes. The Company reviewed a number of other operating expenses, but decided that the expenses are reasonable and reoccurring, and provide a proper basis in which to establish future rates.
- Q. Does column d of Schedule 7 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 8 entitled "Income tax Computation"?
- A. The proforma income tax computation starts with rate base of \$68,397 times the equity percentage of 3.14% of the cost of capital, resulting in the operating net income required of \$2,149 that is subject to federal income and state business taxes. The Company adds interest income of \$2,372 that is also subject to taxes

to determine taxable income of \$4,477. The federal income taxes and state business taxes are \$790 and \$489, respectively.

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

A. No. The Company has applied the proposed sewer rate increase proportionally to all its customers.

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

A. Yes. The Company has engaged the services of Stephen P. St. Cyr & Assoc. The Company has agreed to an hourly fee of \$105.00 (plus out of pocket costs) for work performed in preparation of the rate filing and pursuit of the rate increase during the rate proceeding. At this point, the Company does not anticipate utilizing outside legal council. The Company will make every effort to minimize its rate case expense.

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

A. Yes. In the event that the PUC suspends the proposed rates pending the Commission's investigation of such rates prior to rendering a final order, the Company respectfully requests that PUC grant temporary rates. In support of such temporary rates, as part of this filing, the Company has included testimony and schedules.

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

A. Yes, the Company is requesting PUC approval of a financing of \$238,580, an increase in the annual capital reserve amount from \$10,008 to \$43,249 and an increase in the annual sewer revenue from \$111,841 to \$134,986, effective immediately. The increase in the capital reserve amount will enable the Company

to pay principal and interest on the financing of the 2008 and 2009 improvements. The increase in the sewer revenues will enable the Company to earn a return of 8.30% on its investment, reflected in a proforma rate base of \$68,397, and recover its ongoing operating expenses. The average annual amount for a residential customer will increase from \$223.32 to \$327.80, an increase of \$104.48 or 46.28%.

Q. Does this conclude your testimony?

A. Yes.



## Balance Sheet - Assets and Other Debits

Line No.	Account Title (Number) (a)	Actual 2007 Year End Balance (b)	Financing/ CapRes Adjustments (c)	Proforma 2007 Year End Balance (d)	Actual 2006 Year End Balance (e)	Actual 2005 Year End Balance (f)
<b>UTILITY PLANT</b>						
1	Utility Plant (101-105)	\$ 2,486,095	\$ 238,580	\$ 2,724,675	\$ 2,486,095	\$ 2,475,208
2	Less: Accumulated Depr. and Amort. (108-110)	\$ 1,975,695	\$ 4,023	\$ 1,979,718	\$ 1,899,916	\$ 1,835,748
3	Net Plant	\$ 510,400	\$ 234,557	\$ 744,957	\$ 586,179	\$ 639,460
4	Utility Plant Acquisition Adj. (Net) (114-115)					
5	Total Net Utility Plant	\$ 510,400	\$ 234,557	\$ 744,957	\$ 586,179	\$ 639,460
<b>OTHER PROPERTY AND INVESTMENTS</b>						
6	Nonutility Property (121)					
7	Less: Accumulated Depr. and Amort. (122)					
8	Net Nonutility Property					
9	Investment in Associated Companies (123)					
10	Utility Investments (124)					
11	Total Other Property & Investments	\$ -			\$ -	\$ -
<b>CURRENT AND ACCRUED ASSETS</b>						
12	Cash (131)	32,427	(6,234)	26,193	51,385	44,669
13	Special Deposits (132)	78,345	-	78,345	64,927	75,259
14	Accounts and Notes Receivable-Net (141-144)	14,478		14,478	12,629	11,376
15	Plant Materials and Supplies (151)			-		
16	Prepayments (162-163)	11,084		11,084	4,925	9,385
17	Misc. Current and Accrued Assets (174)	3,000		3,000	6,000	7,500
18	Total Current and Accrued Assets	\$ 139,334	\$ (6,234)	\$ 133,100	\$ 139,866	\$ 148,189
<b>DEFERRED DEBITS</b>						
19	Miscellaneous Deferred Debits (186)	15,890	4,500	20,390	14,046	-
20	Accumulated Deferred Income Taxes (190)					
21	Total Deferred Debits	\$ 15,890	\$ 4,500	\$ 20,390	\$ 14,046	\$ -
<b>TOTAL ASSETS AND OTHER DEBITS</b>		\$ 665,624	\$ 232,823	\$ 898,447	\$ 740,091	\$ 787,649

## Balance Sheet - Equity Capital and Liabilities

Line No.	Account Title (Number) (a)	Actual 2007 Year End Balance (b)	Financing/ CapRes Adjustments (c)	Proforma 2007 Year End Balance (d)	Actual 2006 Year End Balance (e)	Actual 2005 Year End Balance (f)
	<b>EQUITY CAPITAL</b>					
1	Common Stock Issued (201)	\$ 8,000		\$ 8,000	\$ 8,000	\$ 8,000
2	Preferred Stock Issued (204)					
3	Other Paid-In Capital (211)	66,262		66,262	66,262	66,262
4	Retained Earnings (217)	32,713	(5,469)	27,244	40,134	30,666
5	Proprietary Capital (proprietorships & partnerships) (218)					
6	Total Equity Capital	\$ 106,975	\$ (5,469)	\$ 101,506	\$ 114,396	\$ 104,928
	<b>LONG TERM DEBT</b>					
7	Other Long-Term Debt (224)	-	221,498	221,498	-	-
	<b>CURRENT AND ACCRUED LIABILITIES</b>					
8	Accounts Payable (231)	1,798		1,798	3,451	1,823
9	Notes Payable (232)					
10	Customer Deposits (235)					
11	Accrued Taxes (236)					
12	Accrued Interest (237)					
13	Misc. Current and Accrued Liabilities (241)	3,020		3,020	7,640	7,852
14	Total Current and Accrued Liabilities	\$ 4,818		\$ 4,818	\$ 11,091	\$ 9,675
	<b>DEFERRED CREDITS</b>					
15	Advances for Construction (252)					
16	Other Deferred Credits (253)					
17	Accumulated Deferred Investment Tax Credits (255)					
18	Miscellaneous Operating Reserves (265)	78,345	-	78,345	65,789	75,259
19	Contributions In Aid of Construction - Net (271-272)	473,142	16,794	489,936	544,631	593,603
20	Accumulated Deferred Income Taxes (281-283)	2,344		2,344	4,184	4,184
21	<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>	\$ 665,624	\$ 232,823	\$ 898,447	\$ 740,091	\$ 787,649

## Statement of Income

Line No.	Account Title (Number) (a)	Actual 2007 Year End Balance (b)	Financing/ CapResAdj (c)	Proforma 2007 Year End Balance (d)	Actual 2006 Year End Balance (e)	Actual 2005 Year End Balance (f)
	<b>UTILITY OPERATING INCOME</b>					
1	Operating Revenues(400)	\$ 112,310	\$ -	\$ 112,310	\$ 111,819	\$ 110,112
2	<b>Operating Expenses:</b>					
3	Operating and Maintenance Expense (401)	114,657		114,657	93,432	95,370
4	Depreciation Expense (403)	75,779	4,023	79,802	74,917	73,919
5	Amortization of Contribution in Aid of Construction (405)	(71,490)	(288)	(71,778)	(70,609)	(69,684)
6	Amortization of Utility Plant Acquisition Adjustments (406)					
7	Amortization Expense-Other (407)					
8	Taxes Other Than Income (408)	4,953	1,234	6,187	4,600	6,417
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	(1,840)		(1,840)	2,850	1,600
10	<b>Total Operating Expenses</b>	\$ 122,059	\$ 4,969	\$ 127,028	\$ 105,190	\$ 107,622
11	<b>Net Operating Income (Loss)</b>	(9,749)	(4,969)	(14,718)	6,629	2,490
	<b>OTHER INCOME AND DEDUCTIONS</b>					
12						
13	Interest and Dividend Income (419)	2,328		2,328	2,839	3,014
14	Allow. for funds Used During Construction (420)					
15	Nonutility Income (421)					
16	Gains (Losses) From Disposition of Nonutility Property (422)					
17	Miscellaneous Nonutility Expenses (426)					
18	Interest Expense (427)		(500)	(500)		
19	Taxes Applicable To Other Income (409.2, 410.2, 411.2, 412.2)					
20	<b>Total Other Income and Deductions</b>	\$ 2,328	\$ (500)	\$ 1,828	\$ 2,839	\$ 3,014
21	<b>NET INCOME (LOSS)</b>	\$ (7,421)	\$ (5,469)	\$ (12,890)	\$ 9,468	\$ 5,504

**Eastman Sewer Company****Schedule 3****Journal Entries for Financing and Capital Reserve**

Dr.	Miscellaneous Deferred Debit	5,000	
Cr.	Cash		5,000
To record costs to pursue financing and rate adjustment to capital reserve			
Dr.	Cash	238,580	
Cr.	Long Term Debt		238,580
To record receipt of cash and related obligation			
Dr.	Plant	238,580	
Cr.	Cash		238,580
To record capital expenditures on plant replacements/improvements			
Dr.	Depreciation Expense	4,023	
Cr.	Accumulated Depreciation		4,023
To record one-half year depreciation on plant additions			
Dr.	State/Local Property Taxes	1,234	
Cr.	Cash		1,234
To record additional state and local property taxes and additional business taxes			
Dr.	Long Term Debt	17,082	
Dr.	Interest Expense	16,159	
Cr.	Special Deposit		33,241
To record payment of principal and interest on long term debt			
Dr.	Amortization of debt expense	500	
Cr.	Miscellaneous Deferred Debit		500
To record amortization of financing/capital reserve costs			
Dr.	Special Deposit	33,241	
Cr.	Revenue		33,241
Dr.	Revenue	33,241	
Cr.	Miscellaneous Operating Reserve		33,241
To record additional capital reserve			
Dr.	Miscellaneous Operating Reserve	33,241	
Cr.	Contribution in Aid of Construction		17,082
Cr.	Interest Expenses		16,159
To record reduction in miscellaneous operating reserve and addition to CIAC			
Dr.	Accumulated Amortization of CIAC	288	
Cr.	Amortization of CIAC		288
To record one-half year amortization on additions to CIAC			

**Eastman Sewer Company****Schedule 4****Computation of Revenue Deficiency****For the Test Year Ended December 31, 2007**

	<u>Actual</u>	<u>Proforma</u>
Rate Base (Schedule 5)	\$67,706	\$68,397
Rate of Return (Schedule 6)	<u>10.00%</u>	<u>8.30%</u>
Operating Income Required	\$6,771	\$5,677
Net Operating Income (Schedule 7)	<u>-9,749</u>	<u>5,677</u>
Operating Income Deficiency	\$16,520	\$0
Tax Effect		<u>0</u>
Revenue Deficiency	<u>\$16,520</u>	<u>\$0</u>

SPSt. Cyr  
8/12/2008

Eastman Sewer Company

Schedule 5

Rate Base

Line No.	Account Title (a)	December 2007 Balance (b)	December 2006 Balance (c)	Actual Average Balance (d)	Adjustments (e)	Proforma Average Balance (f)
1	Plant in Service	\$ 2,486,095	\$ 2,486,095	\$2,486,095	\$ 238,580	\$2,724,675
2	Less: Accumulated Depreciation	<u>(1,975,695)</u>	<u>(1,899,916)</u>	<u>(1,937,806)</u>	<u>(4,023)</u>	<u>(1,941,829)</u>
3	Net Utility Plant	\$510,400	\$586,179	\$548,290	\$234,557	\$782,847
4	Cash Working Capital	23,562	19,200	23,562	692	24,254
5	Material and Supplies	0	0	0		0
6	Prepayments	11,084	4,925	8,005		8,005
7	Contribution in Aid of Construction - Net	(473,142)	(544,631)	(508,887)	(234,557)	(743,444)
8	Accumulated Deferred Income Taxes	<u>(2,344)</u>	<u>(4,184)</u>	<u>(3,264)</u>		<u>(3,264)</u>
9	Total Rate Base	<u>\$69,560</u>	<u>\$61,489</u>	<u>\$67,706</u>	<u>\$692</u>	<u>\$68,397</u>

**Eastman Sewer Company**

Schedule 5A

**Working Capital**

	2007 Proforma <u>Amount</u>	2007 Actual <u>Amount</u>	2006 Actual <u>Amount</u>
Operating and Maintenance Expenses	\$118,023	\$114,657	\$93,432
75/365	<u>20.55%</u>	<u>20.55%</u>	<u>20.55%</u>
Working Capital	<u>\$24,254</u>	<u>\$23,562</u>	<u>\$19,200</u>

SPSt. Cyr  
8/12/2008

**Eastman Sewer Company**

**Schedule 6**

**Page 1 of 2**

**Rate of Return Information**

		Component Ratio		Component Cost Rate		Weighted Average Cost Rate
<b>Overall Rate of Return</b>						
Equity Capital		31.43%		10.00%		3.14%
Long Term Debt		68.57%		7.52%		5.16%
Total Capital		100.00%				8.30%

<b>Capital Structure for Ratemaking Purposes</b>				2007 Proforma		2007 Ratios
Common Stock				\$ 8,000		2.48%
Other Paid in Capital				66,262		20.51%
Retained Earnings				27,244		8.43%
Total Equity				\$ 101,506		31.43%
Long Term Debt				\$221,498		68.57%
Total Capital				\$ 323,004		100.00%

<b>Capital Structure for 2007 - 2005</b>	2007 Proforma		2007 Actual		2006 Actual		2005 Actual
Common Stock	\$ 8,000		\$ 8,000		\$ 8,000		\$ 8,000
Other Paid in Capital	66,262		66,262		66,262		66,262
Retained Earnings	27,244		32,713		40,134		30,666
Total Equity	\$ 101,506		\$ 106,975		\$ 114,396		\$ 104,928
Long Term Debt	221,498		-		\$ -		\$ -
Total Capital	\$ 323,004		\$ 106,975		\$ 114,396		\$ 104,928

<b>Cap Struct Ratios for 2007 - 2005</b>	<b>2007 Proforma</b>		<b>2007 Actual</b>		<b>2006 Actual</b>		<b>2005 Actual</b>
Common Stock	2.48%		7.48%		6.99%		7.62%
Other Paid in Capital	20.51%		61.94%		57.92%		63.15%
Retained Earnings	8.43%		30.58%		35.08%		29.23%
Total Equity	31.43%		100.00%		100.00%		100.00%
Long Term Debt	68.57%		0.00%		0.00%		0.00%
Total Capital	100.00%		100.00%		100.00%		100.00%

<b>Cost of Common Equity Capital</b>
--------------------------------------

The Company is utilizing a cost of common equity of 10%.
--

SPSt. Cyr  
8/12/2008

## Statement of Income

Line No.	Account Title (Number) (a)	Actual 2007 Year End Balance (b)	Proforma Adjustments (c)	Proforma 2007 Year End Balance (d)	Actual 2006 Year End Balance (e)	Actual 2005 Year End Balance (f)
	<b>UTILITY OPERATING INCOME</b>					
1	Operating Revenues(400)	\$ 112,310	\$ 23,145	\$ 135,455	\$ 111,819	\$ 110,112
2	<b>Operating Expenses:</b>					
3	Operating and Maintenance Expense (401)	114,657	3,366	118,023	93,432	95,370
4	Depreciation Expense (403)	75,779		75,779	74,917	73,919
5	Amortization of Contribution in Aid of Construction (405)	(71,490)		(71,490)	(70,609)	(69,684)
6	Amortization of Utility Plant Acquisition Adjustments (406)					
7	Amortization Expense-Other (407)					
8	Taxes Other Than Income (408)	4,953	1,234	6,187	4,600	6,417
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	(1,840)	\$3,119	1,279	2,850	1,600
10	<b>Total Operating Expenses</b>	\$ 122,059	\$ 7,719	\$ 129,778	\$ 105,190	\$ 107,622
11	<b>Net Operating Income (Loss)</b>	(9,749)	15,426	5,677	6,629	2,490
12	<b>OTHER INCOME AND DEDUCTIONS</b>					
13	Interest and Dividend Income (419)	2,328		2,328	2,839	3,014
14	Allow. for funds Used During Construction (420)					
15	Nonutility Income (421)					
16	Gains (Losses) From Disposition of Nonutility Property (422)					
17	Miscellaneous Nonutility Expenses (426)					
18	Interest Expense (427)					
19	Taxes Applicable To Other Income (409.2, 410.2, 411.2, 412.2)					
20	<b>Total Other Income and Deductions</b>	\$ 2,328	\$ -	\$ 2,328	\$ 2,839	\$ 3,014
21	<b>NET INCOME (LOSS)</b>	\$ (7,421)	\$ 15,426	\$ 8,005	\$ 9,468	\$ 5,504

**Eastman Sewer Company**  
**Statement of Income - Proforma Adjustments**

Schedule 7A

Page 1 of 3

**Operating Revenues**

2007 Test Year Proforma	\$135,455
2007 Test Year Actual	<u>112,310</u>
Proforma Adjustment	<u>\$23,145</u>

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Total Proforma Adjustment to Operating Revenues **\$23,145**

**Operation and Maintenance Expenses**

Contracted Services - Sewer System Operations

2007 Test Year Proforma	\$42,000
2007 Test Year Actual	<u>29,170</u>
Proforma Adjustment	<u>\$12,830</u>

To adjust test year expenses for increase in contracted services related to the operations of the sewer system.

Other Consulting

2007 Test Year Proforma	\$2,162
2007 Test Year Actual	<u>5,333</u>
Proforma Adjustment	<u>(\$3,171)</u>

To adjust test year expenses for expenditures related to financing and rate filing and engineering / capital study

Building & Equipment Repairs

2007 Test Year Proforma	\$4,040
2007 Test Year Actual	<u>5,333</u>
Proforma Adjustment	<u>(\$1,293)</u>

To adjust test year expenses for the 3 year average of building and equipment repairs program.

Miscellaneous Expenses

2007 Test Year Proforma	\$382
2007 Test Year Actual	<u>5,382</u>
Proforma Adjustment	<u>(\$5,000)</u>

To adjust test year expenses for the payment of \$5,000 to the condo association for sewer backup incident

**Total Proforma Adjustment to Operating & Maintenance Expenses** **\$3,366**

**Taxes other than Income**

2007 Test Year Proforma	\$6,187
2007 Test Year Actual	<u>4,953</u>
Proforma Adjustment	<u>\$1,234</u>

To adjust test year expenses for the increase in state and local property taxes due to the increase in plant in service

**Income Taxes**

Federal Income Taxes

2007 Test Year Proforma	\$790
2007 Test Year Actual	<u>(1,080)</u>
Proforma Adjustment	<u>\$1,870</u>

To adjust test year expenses for the increase in federal income taxes due to the increase in revenue

State Business Taxes

2007 Test Year Proforma	\$489
2007 Test Year Actual	<u>(760)</u>
Proforma Adjustment	<u>\$1,249</u>

To adjust test year expenses for the increase in state business taxes due to the increase in revenue

**Total Proforma Adjustments to Income Taxes**

**\$3,119**

**Total Proforma Adjustment to Operating Expenses**

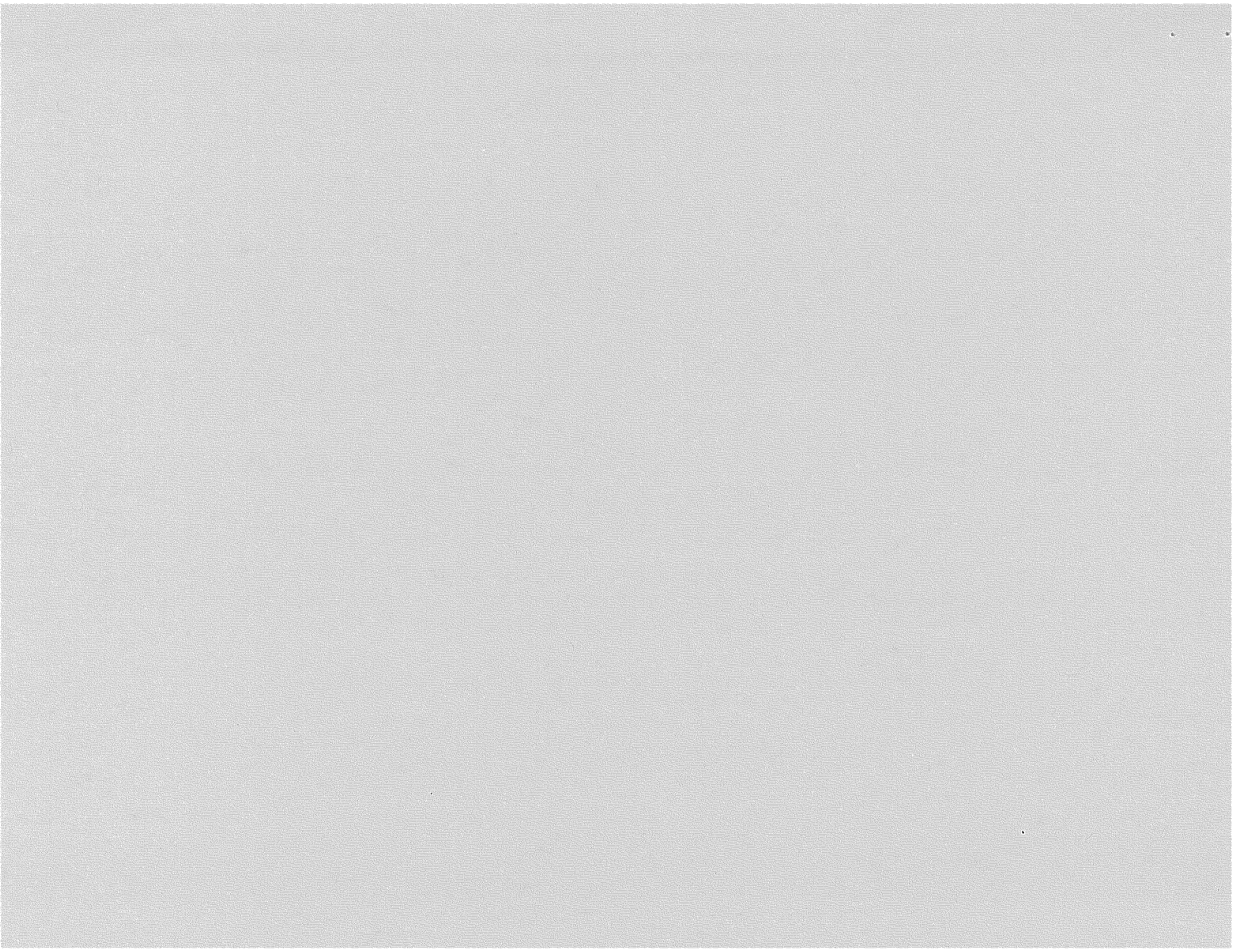
**\$7,719**

SPSt. Cyr  
8/12/2008

**Eastman Sewer Company****Schedule 8****Income Tax Computation**

	<u>Actual</u>	<u>Proforma</u>
Total Rate Base	\$67,706	\$68,397
Equity Component of Cost of Capital	<u>10.00%</u>	<u>3.14%</u>
Operating Net Income Required	\$6,771	\$2,149
Interest Income	<u>2,328</u>	<u>2,328</u>
Taxable Income	\$9,099	\$4,477
Tax Effect (.2858)	<u>2,600</u>	<u>1,279</u>
Income Required before Income Taxes	\$11,699	\$5,757
Less: NH Business Profits Tax @ 8.5%	<u>994</u>	<u>489</u>
Income subject to Federal Taxes	\$10,704	\$5,268
Less: Federal Income Tax @ 15%	<u>1,606</u>	<u>790</u>
Income after Income Taxes	<u>\$9,099</u>	<u>\$4,477</u>

SPSt. Cyr  
8/12/2008



Eastman Sewer Company  
before the  
New Hampshire Public Utilities Commission  
DW 08-086  
Proposed Statement to Customer

Date

Name

Address

Dear Customer,

On August 15, 2008 Eastman Sewer Company ("Eastman" or "Company") requested New Hampshire Public Utilities Commission ("NHPUC") approval of the financing of 2008 and 2009 system improvements and an increase in rates to service the debt and earn a return on its investment and cover its operating expenses. If the financing and rate filing is accepted as submitted, the Company would realize an annual increase in capital reserve funds of \$33,241 and permanent revenues of \$23,145 effective immediately. The average annual amount for a residential customer would increase from \$223.32 to \$327.80, an increase of \$104.48 or 46.28%.

The need for the financing and rate increases are due to the 2008 and 2009 planned improvements to the sewer system, to the need to service the debt, to allow the Company to earn a return on its investments and to cover increased operating expenses. The Company has not raised its rates since it was purchased by ECA and, in fact, the rates have remained at the current level (\$56 per quarter) for the past 16 years.

The rate increase will be subject to review and ultimate approval by the NHPUC. The Company will keep you apprised of the proceeding before the NHPUC and its ultimate conclusion.

Sincerely,



Response to certain PUC 1604.01 Full Rate Case Filing Requirements

- |  |   |
|--|---|
| (3) Federal income tax reconciliation        | The Company does not file a separate tax return.  |
| (4) NH and federal income tax factors        | See attached.   |
| (8) Most recent construction budget          | As part of this filing, the Company is proposing to finance its 2008 and 2009 capital improvements amounting to \$238,580.  |
| (11) Membership fees, dues, donations        | The Company does not belong to any associations, etc.   |
| (12) Management Audit and Depreciation Study | The Company engaged CLD Consulting Engineers to review the system and recommended needed improvements and related costs. On March 13, 2008 CLD issued its report entitled Capital Improvements Recommendations. |
| (14) List of Officers and Directors          | Please see Schedule A-4 of the 2007 PUC Annual Report   |
| (15) Amount of Voting Stock                  | Please see Schedule A-5 of the 2007 PUC Annual Report   |
| (16b) Payments ... in excess of \$10,000     | Please see Schedule A-7 of the 2007 PUC Annual Report   |
| (18) Balance Sheets and Income Statements    | The balance sheets and income statements for the years 2005 – 2007 are reflected in the rate filing schedules   |
| (21) Projects need for External Financing    | As part of this filing, the Company is proposing to finance its 2008 and 2009 capital improvements amounting to \$238,580.  |

(22) Capital Budget ... Source and Use of Funds      See response to 8 and 21.

(25) Subsidiary      The Company is a subsidiary of Eastman Community Association ("ECA"). The ECA's function and activities are completely unrelated to the sewer company. As such, it does not see the need to duplicate "all items required."

(26) Subsidiary      See response to 25.

(28) Support      There is no additional support.

SPSt. Cyr  
8/15/08

## Eastman Sewer Company

### Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	15.00%
Effective Federal Income Tax Rate	13.73%
Add: NH Business Profit Tax	8.50%
Effective Tax Rate	22.23%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	22.23%
Percent Used as a Divisor in Determining the Revenue Requirement	77.78%
Tax Multiplier	28.58%

SPSt. Cyr  
8/12/2008



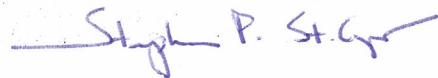
August 15, 2008

Debra Howland  
Executive Director & Secretary  
Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, N. H. 03301-2429

Dear Ms. Howland:

Eastman Sewer Company's ("Eastman" or "Company") filing for financing and the proposed rate change in DW 08-086 was prepared utilizing the Company's books and records. To the best of my knowledge and belief, the filing including its revenue and expenses and assets and liabilities accurately reflects the Company's books.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen P. St. Cyr", with a stylized flourish at the end.

Stephen P. St. Cyr



**STATE OF NEW HAMPSHIRE**  
**PUBLIC UTILITIES COMMISSION**  
**EASTMAN SEWER COMPANY**

**DW 08-086**

**PETITION FOR APPROVAL OF FINANCING  
AND RATE INCREASES**

**TEMPORARY RATES**

**PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,  
Biddeford, Me.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What is the purpose of your testimony regarding **temporary rates**?

A. In the event that the Public Utilities Commission ("PUC") suspends the proposed permanent rates pending the Commission's investigation of such rates prior to rendering a final order, the Company respectfully requests that the PUC grant temporary rates. The purpose of my testimony regarding temporary rates is to provide an overview of the Company's proposed temporary rates and the basis for such rates.

Q. Please provide an overview of the requests for temporary rates.

A. The Company is proposing to increase revenues by \$20,960 on a temporary basis. The increase in revenues of \$20,960 on a temporary basis would allow the Company to earn a return of 10% on its investments and cover its operating costs.

The Company has not adjusted its rate base and rate of return. The rate base has not been adjusted by the addition of the 2008 and 2009 improvements (and the related contribution in aid of construction). The rate of return has not been adjusted by the additional debt and the related interest costs. Revenue has been adjusted only by the increase in revenues necessary for the Company to earn its authorized rate of return and cover its operating costs. Expenses have only been adjusted by the additional federal and state taxes on the increase in revenue. The Company is not requesting a change in the capital reserve rate as part of its requests for temporary rates.

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

A. No.

Q. Did you prepare the temporary rate schedules identified as schedules 1 – 6?

A. Yes, the temporary rate schedules were prepared by me.

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

A. The Company is utilizing the same twelve months ended December 31, 2007 for temporary rates.

Q. Would you summarize schedule 1 entitled "Computation of Revenue Deficiency for Temporary Rates 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 \$20,960. It is based upon an actual test year beginning and ending 2007 average rate base of \$67,706, as summarized in Schedule 2. The Company is utilizing its authorized rate of return of 10.00% for

the actual test year. The authorized rate of return of 10.00%, when multiplied by the rate base of \$67,706, results in an operating income requirement of \$6,771.

As shown on Schedule 4, the actual net operating income for the test period was (\$9,749). The operating income requirement less the net operating income results in an operating income deficiency of \$16,520. With the additional revenue, there will be additional federal and state taxes. The additional federal and state taxes amount to \$4,440. The addition of the additional taxes of \$4,440 and the operating income deficiency of \$16,520 sums to a revenue deficiency of \$20,960.

Q. Would you please summarize Schedule 2, "Rate Base for Temporary Rates"?

A. The rate base consists of Plant in Service, less Accumulated Depreciation, plus Cash Working Capital, Material and Supplies, Prepayments, Net Contributions in Aid of Construction and Accumulated Deferred Income Taxes. The actual beginning and ending average rate base amounts to \$67,706. The Company made no proforma adjustments to rate base.

Q. Would you please explain Schedule 3 entitled "Rate of Return Information for Temporary Rates"?

A. The Company is utilizing its authorized rate of return of 10%. The Company's test year capital structure is all equity. The Company's authorized rate of return is 10%. The Company has made no proforma adjustments to its capital structure and no changes to its authorized rate of return.

Q. Please explain Schedule 4, "Statement of Income for Temporary Rates," 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. During the twelve months ended December 31, 2007, the Company recorded operating revenues of \$112,310. Its net operating income (loss) was (\$9,749).

The Company adjusted its revenue by \$20,960 in order to realize its operating income required of \$6,771. The Company adjusted its expenses by \$4,440 for the increase in federal and state taxes associated with the increase in revenues.

- Q. Would you please explain Schedule 5 entitled "Income Tax Computation for Temporary Rates"?

- A. The income tax computation based on actual test year results starts with rate base of \$67,706 times the authorized equity percentage of 10.00% of the cost of capital, resulting in the operating net income required of \$6,771 that is subject to federal income and state business taxes. The Company adds interest income of \$2,328 that is also subject to taxes to determine taxable income of \$9,099. The federal income taxes and state business taxes are \$1,606 and \$994, respectively.

When the federal and state taxes are compared to federal and state taxes in the test year, the proforma adjustment amounts to \$4,440.

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

- A. No. The Company has applied the proposed sewer rate increase proportionally to all its customers.

- Q. Please explain Schedule 6 entitled "Report of Proposed Rate Changes for Temporary Rates."

A. The "Authorized Present Revenues" for sewer service amount to \$111,841. The Company is proposing to increase revenues of \$20,960 for a temporary period. With the proposed increase in revenues of \$20,960, the total "Proposed Revenues" amounts to \$132,801.

Q. What impact does the proposed increase in revenues have on residential customers?

A. The average residential customer is presently paying \$204.62 per year for sewer service. With the proposed increase, the average residential customer will be paying \$242.96 per year, an increase of \$38.35 or 18.74% for sewer service.

Q. For temporary rates, is the Company proposing any change to the capital reserve rate?

A. No.

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

A. Yes, the Company is requesting an increase in the annual sewer revenue from \$111,841 to \$132,801 effective immediately. The increase in the sewer revenues will enable the Company to earn its authorized rate of return of 10.00% on its investment and recover its ongoing operating expenses. The average annual amount for a residential customer will increase from \$204.62 to \$242.96, an increase of \$38.35 or 18.74%.

Q. Does this conclude your testimony?

A. Yes.

**Eastman Sewer Company****Schedule 1****Computation of Revenue Deficiency for Temporary Rates****For the Test Year Ended December 31, 2007**

	<u>Actual</u>
Rate Base (Schedule 2)	\$67,706
Rate of Return (Schedule 3)	<u>10.00%</u>
Operating Income Required	\$6,771
Net Operating Income (Schedule 4)	<u>-9,749</u>
Operating Income Deficiency	\$16,520
Tax Effect	<u>4,440</u>
Revenue Deficiency	<u>\$20,960</u>

SPSt. Cyr  
8/14/2008

Eastman Sewer Company

Schedule 2

Rate Base for Temporary Rates

Line No.	Account Title (a)	December 2007 Balance (b)	December 2006 Balance (c)	Actual Average Balance (d)	Adjustments (e)	Proforma Average Balance (f)
1	Plant in Service	\$ 2,486,095	\$ 2,486,095	\$2,486,095		\$2,486,095
2	Less: Accumulated Depreciation	<u>(1,975,695)</u>	<u>(1,899,916)</u>	<u>(1,937,806)</u>		<u>(1,937,806)</u>
3	Net Utility Plant	\$510,400	\$586,179	\$548,290		\$548,290
4	Cash Working Capital	23,562	19,200	23,562		23,562
5	Material and Supplies	0	0	0		0
6	Prepayments	11,084	4,925	8,005		8,005
7	Contribution in Aid of Construction - Net	(473,142)	(544,631)	(508,887)	0	(508,887)
8	Accumulated Deferred Income Taxes	<u>(2,344)</u>	<u>(4,184)</u>	<u>(3,264)</u>		<u>(3,264)</u>
9	Total Rate Base	<u>\$69,560</u>	<u>\$61,489</u>	<u>\$67,706</u>	<u>\$0</u>	<u>\$67,706</u>

**Eastman Sewer Company**

Schedule 2A

**Working Capital for Temporary Rates**

	2007 Proforma <u>Amount</u>	2007 Actual <u>Amount</u>	2006 Actual <u>Amount</u>
Operating and Maintenance Expenses	\$114,657	\$114,657	\$93,432
75/365	<u>20.55%</u>	<u>20.55%</u>	<u>20.55%</u>
Working Capital	<u>\$23,562</u>	<u>\$23,562</u>	<u>\$19,200</u>

SPSt. Cyr  
8/14/2008

## Rate of Return Information for Temporary Rates

Overall Rate of Return	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
Equity Capital	100.00%	10.00%	10.00%
Long Term Debt	0.00%	0.00%	0.00%
Total Capital	100.00%		10.00%

Capital Structure for Ratemaking Purposes	2007 Actual	2007 Ratios
Common Stock	\$ 8,000	7.48%
Other Paid in Capital	66,262	61.94%
Retained Earnings	32,713	30.58%
Total Equity	\$ 106,975	100.00%
Long Term Debt	\$0	0.00%
Total Capital	\$ 106,975	100.00%

Capital Structure for 2007 - 2005	2007 Proforma	2007 Actual	2006 Actual	2005 Actual
Common Stock	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000
Other Paid in Capital	66,262	66,262	66,262	66,262
Retained Earnings	32,713	32,713	40,134	30,666
Total Equity	\$ 106,975	\$ 106,975	\$ 114,396	\$ 104,928
Long Term Debt	-	-	\$ -	\$ -
Total Capital	\$ 106,975	\$ 106,975	\$ 114,396	\$ 104,928

**Schedule 3**  
**Page 2 of 2**

<b>Cap Struct Ratios for 2007 - 2005</b>	<b>2007 Proforma</b>		<b>2007 Actual</b>		<b>2006 Actual</b>		<b>2005 Actual</b>
Common Stock	7.48%		7.48%		6.99%		7.62%
Other Paid in Capital	61.94%		61.94%		57.92%		63.15%
Retained Earnings	30.58%		30.58%		35.08%		29.23%
Total Equity	100.00%		100.00%		100.00%		100.00%
Long Term Debt	0.00%		0.00%		0.00%		0.00%
Total Capital	100.00%		100.00%		100.00%		100.00%

**Cost of Common Equity Capital**

The Company is utilizing its authorized cost of common equity of 10%.

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## Statement of Income for Temporary Rates

Line No.	Account Title (Number) (a)	Actual 2007 Year End Balance (b)	Proforma Adjustments (c)	Proforma 2007 Year End Balance (d)	Actual 2006 Year End Balance (e)	Actual 2005 Year End Balance (f)
	<b>UTILITY OPERATING INCOME</b>					
1	<b>Operating Revenues(400)</b>	\$ 112,310	\$ 20,960	\$ 133,270	\$ 111,819	\$ 110,112
2	<b>Operating Expenses:</b>					
3	Operating and Maintenance Expense (401)	114,657	-	114,657	93,432	95,370
4	Depreciation Expense (403)	75,779		75,779	74,917	73,919
5	Amortization of Contribution in Aid of Construction (405)	(71,490)		(71,490)	(70,609)	(69,684)
6	Amortization of Utility Plant Acquisition Adjustments (406)					
7	Amortization Expense-Other (407)					
8	Taxes Other Than Income (408)	4,953	-	4,953	4,600	6,417
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	(1,840)	\$4,440	2,600	2,850	1,600
10	<b>Total Operating Expenses</b>	\$ 122,059	\$ 4,440	\$ 126,499	\$ 105,190	\$ 107,622
11	<b>Net Operating Income (Loss)</b>	(9,749)	16,520	6,771	6,629	2,490
	<b>OTHER INCOME AND DEDUCTIONS</b>					
12						
13	Interest and Dividend Income (419)	2,328		2,328	2,839	3,014
14	Allow. for funds Used During Construction (420)					
15	Nonutility Income (421)					
16	Gains (Losses) From Disposition of Nonutility Property (422)					
17	Miscellaneous Nonutility Expenses (426)					
18	Interest Expense (427)			-		
19	Taxes Applicable To Other Income (409.2, 410.2, 411.2, 412.2)					
20	<b>Total Other Income and Deductions</b>	\$ 2,328	\$ -	\$ 2,328	\$ 2,839	\$ 3,014
21	<b>NET INCOME (LOSS)</b>	\$ (7,421)	\$ 16,520	\$ 9,099	\$ 9,468	\$ 5,504

**Eastman Sewer Company**  
**Statement of Income - Proforma Adjustments**

Schedule 4A

Page 1 of 3

**Operating Revenues**

2007 Test Year Proforma	\$133,270
2007 Test Year Actual	<u>112,310</u>
Proforma Adjustment	<u>\$20,960</u>

To adjust test year revenues for the additional revenue needed in order for the Company to earn its rate of return and to recover its expenses.

Total Proforma Adjustment to Operating Revenues \$20,960

**Operation and Maintenance Expenses**

Contracted Services - Sewer System Operations

2007 Test Year Proforma	
2007 Test Year Actual	
Proforma Adjustment	<u>\$0</u>

To adjust test year expenses for increase in contracted services related to the operations of the sewer system.

Other Consulting

2007 Test Year Proforma	
2007 Test Year Actual	
Proforma Adjustment	<u>\$0</u>

To adjust test year expenses for expenditures related to financing and rate filing and engineering / capital study

Building & Equipment Repairs

2007 Test Year Proforma	
2007 Test Year Actual	
Proforma Adjustment	<u>\$0</u>

To adjust test year expenses for the 3 year average of building and equipment repairs program.

Miscellaneous Expenses

2007 Test Year Proforma

2007 Test Year Actual

Proforma Adjustment \$0

To adjust test year expenses for the payment of \$5,000 to the condo association for sewer backup incident

**Total Proforma Adjustment to Operating & Maintenance Expenses** \$0

**Taxes other than Income**

2007 Test Year Proforma

2007 Test Year Actual

Proforma Adjustment \$0

To adjust test year expenses for the increase in state and local property taxes due to the increase in plant in service

**Income Taxes**

Federal Income Taxes

2007 Test Year Proforma \$1,606

2007 Test Year Actual (1,080)

Proforma Adjustment \$2,686

To adjust test year expenses for the increase in federal income taxes due to the increase in revenue

State Business Taxes

2007 Test Year Proforma \$994

2007 Test Year Actual (760)

Proforma Adjustment \$1,754

To adjust test year expenses for the increase in state business taxes due to the increase in revenue

<b>Total Proforma Adjustments to Income Taxes</b>	<b><u>\$4,440</u></b>
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<b>Total Proforma Adjustment to Operating Expenses</b>	<b><u>\$4,440</u></b>
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**Eastman Sewer Company****Schedule 5****Income Tax Computation for Temporary Rates**

	<u>Actual</u>
Total Rate Base	\$67,706
Equity Component of Cost of Capital	<u>10.00%</u>
Operating Net Income Required	\$6,771
Interest Income	<u>2,328</u>
Taxable Income	\$9,099
Tax Effect (.2858)	<u>2,600</u>
Income Required before Income Taxes	\$11,699
Less: NH Business Profits Tax @ 8.5%	<u>994</u>
Income subject to Federal Taxes	\$10,704
Less: Federal Income Tax @ 15%	<u>1,606</u>
Income after Income Taxes	<u>\$9,099</u>

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**Eastman Sewer Company**

Schedule 6

**Report of Proposed Rate Changes for Temporary Rates**

Utility Eastman Sewer Company Date Filed: 8/15/2008

Tariff No.: Effective Date: Immediately

**Sewer Rates**

<u>Rate of Class of Service</u>	<u>Effect of Change</u>	<u>Number of Customers</u>	<u>Authorized Present Revenue</u>	<u>Proposed Revenue</u>	<u>Proposed Change Amount</u>	<u>Proposed Change Percentage</u>
Residential	\$20,439	533	\$109,060	\$129,499	\$20,439	18.74%
Commercial	<u>521</u>	<u>2</u>	<u>2,781</u>	<u>3,302</u>	<u>521</u>	<u>18.73%</u>
Total Sewer	\$20,960	535	\$111,841	\$132,801	\$20,960	18.74%
Misc.	<u>0</u>	<u>-</u>	<u>469</u>	<u>469</u>	<u>0</u>	<u>0.00%</u>
Total	<u>\$20,960</u>	<u>535</u>	<u>\$112,310</u>	<u>\$133,270</u>	<u>\$20,960</u>	<u>18.66%</u>
<b>Avg.Res.Cust.</b>	<b><u>\$38.35</u></b>		<b><u>\$204.62</u></b>	<b><u>\$242.96</u></b>	<b><u>\$38.35</u></b>	<b><u>18.74%</u></b>

**Capital Reserve Rate**

Total	<u>\$0</u>	<u>535</u>	<u>\$10,008</u>	<u>\$10,008</u>	<u>\$0</u>	<u>0.00%</u>
<b>Avg.Res.Cust.</b>	<b><u>\$0.00</u></b>		<b><u>\$18.71</u></b>	<b><u>\$18.71</u></b>	<b><u>\$0.00</u></b>	<b><u>0.00%</u></b>
<b>Total Avg. Res. Cust.</b>	<b><u>\$38.35</u></b>		<b><u>\$223.32</u></b>	<b><u>\$261.67</u></b>	<b><u>\$38.35</u></b>	<b><u>17.20%</u></b>

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