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STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Forest Edge Water Company

DW 10-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

October 6, 2010

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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 prepare the petition, the pre-filed direct testimony and financial schedules.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission ("PUC" or "Commission"), including requests for new and expanded franchises, requests for approval of financings including State Revolving Fund ("SRF"), commercial bank and owner financings, and requests for rate increases.

Q. Have you prepared and presented testimony to this Commission on behalf of Forest Edge Water Company ("Company")?

A. Yes.

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Q. What is the purpose of your current testimony?

A. My testimony is to support the Company's filing requesting Commission approval for both funding and expenditure of approximately $126,000 for the removal of the upper pump house and equipment and the construction of an addition to the middle pump house including new electrical, piping, etc. The Company is also seeking an order "NISI" from the Commission.

Q. Why is the Company asking for approval of an order "NISI"?

A. The Company is asking the Commission to issue an order "NISI" due to funds becoming available from the State Revolving Fund ("SRF").

Q. What process did the Company have to follow?

A. The New Hampshire Department of Environmental Services (NHDES), through its State Revolving Fund ("SRF"), received federal funds, which they have to spend in a prudent but expeditious manner in order to adhere to the federal guidelines. As such the NHDES notified all water utilities in the state, posted the guidelines for qualifying projects and solicited pre-application filing for projects. The Company submitted an application for this project totaling $126,000. NHDES evaluated each project as to need, economics of the area, and other criteria. The NHDES then started at the top until the money ran out.

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Q. Can you now explain in a little more detail, through your testimony, the Company's purpose for this proposed financing and step increase?

A. The purpose of my testimony is to support the Company's effort to obtain PUC approval to borrow funds from the State Revolving Funds and to use such capital to remove the upper pump house and to construct an addition to the middle pump house.

Q. Please describe the pump station station situation at FEWC.

A. Currently, the system has two outstanding, significant deficiencies as detailed in the November 9, 2006 NHDES Sanitary Survey. Both of these deficiencies relate to conditions of the pump houses. The middle pump house has a difficult entry and meets the OSHA definition of a confined space. The upper pump house was noted by NHDES to be structurally unsound. The project will enable the Company to cure the deficiencies, combine the functions of the upper and middle pump houses into one pump house and enhance reliability.

Q. When does the Company anticipate that the pump station improvements will be completed?

A. The Company anticipates that the project will be completed in the spring 2011.

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Q. What are the costs of removing the upper pump house and constructing the addition to the middle pump house?

A. The estimated costs of removing the upper pump house and equipment and constructing the addition to the middle pump houses are $126,000.

Q. Please summarize the total costs to be financed.

A. A summary is as follows:

Pump Houses	$90,000
Variable Frequency Drives	26,000
Generator	10,000
Total Financing	$126,000

Q. How does the Company propose to finance the projects?

A. The Company proposes to finance the project with state revolving funds provided by the federal government.

Q. How much is the total financing?

A. The total financing amounts to $126,000.

Q. What are the terms and conditions of the SRF loan?

A. The term is 20 years. The interest rate is 2.34%. The Company is assuming that the loan repayment begins July 1, 2011.

Q. Why should the Commission approve the SRF financing?

A. The Commission should approve the financing because the proposed SRF financing is in the best interest of the public and consistent with the public good. The financing enables the Company to cure two outstanding deficiencies related to its pump houses and enhances the Company's ability to provide safe, reliable and adequate water to its customers. The projects are necessary in order to insure present and future water supply.

Q. How is the Company proposing to recover the investments subject to this financing?

A. As part of docket DW 08-160 the PUC approved a settlement agreement, which provided for a step adjustment for capital improvement(s) called for in the feasibility study and completed by the end of 2011. Once the financing is approved, the funds are obtained, and the projects are completed, the Company will submit its actual costs and the related increase in rates for the PUC to review and approve.

Q. What are the consequences if rates are not approved?

A. If the rates are not approved, the Company would be unable to repay the SRF loan to the State. If the Company cannot repay the SRF loan, NHDES would have no choice but to disqualify the Company from receiving the funds for the project. If the Company is disqualified from receiving the funds, the project would be

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delayed. If and when such projects were to go forward at a later date, both the Company and its customers will pay more.

Q. What is the Company proposing for the step increases associated with this project?

A. The Company is proposing a step increase for the project. The step increase would go into effect upon completion of the project and when such project is providing service to customers. The Company anticipates that the project will be completed in the spring 2011. The Company believes that a likely timeline would be for service to be provided by April 1, 2011 and new rates to be billed on or about July 1, 2011.

Q. What is the revenue requirement associated with the step increases?

A. The revenue requirement is $11,289.

Q. Do you have any schedules as part of your testimony?

A. Yes. There is one set of schedules identified as SPS 1 thru 10.

Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Deferred Debits?

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b) references the PUC account number. Column (c) provides the account title. Column (d) identifies the actual December 31, 2009 account balances. Column (e) identifies the financing and step increase adjustments to the December 31,

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2009 account balances. Column (f) is the sum of columns (d) and (e) and identifies the proformed December 31, 2009 account balances.

Q. Please explain the adjustments related to SRF financing and step increases.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant represents the additions to plant in service for the project amounting to $126,000.

The second adjustment of $2,800 to Accumulated Depreciation is for the half-year depreciation on the $126,000 of plant additions.

The third adjustment of ($814) to Cash is the net of the cash received from the financing and the proposed step increase, less payment for the new plant, the repayment of the new loan, and the payment of property taxes.

The fourth adjustment of $1,350 to Miscellaneous Deferred Debits is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of those expenditures related to the financing.

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

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the financing and step increases.

A. Schedule SPS 1-2 contains 2 adjustments.

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The first adjustment of $2,736 to Retained Earnings represents the net income impact of the various income statement transactions (i.e., revenue, depreciation, taxes and interest expense).

The second adjustment of $121,000 to Other Long Term Debt represents the net amount of the additional debt financing of $126,000 and the first year repayment on the additional debt financing of $5,000.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the SRF financing and step increase.

A. There are a number of adjustments to the Statement of Income.

The first adjustment of $11,289 to Operating Revenue represents the revenue requirement associated with the additions to plant. The revenue requirement allows the Company to recover its investment, earn a return on the unrecovered investment, and to recover its operating expenses.

The total adjustment to Operating Expenses is $5,508. The adjustments to Operating Expenses consist of depreciation and property taxes. The significant adjustments are the increase in depreciation expense associated with the new plant and the increase in the property taxes on the new plant.

The adjustments to Interest Expense of $2,895 and Amortization of Debt Expense of $150 represents the first year interest expense on the additional debt financing and the first year amortization of the financing costs.

Q. Would you please explain Schedule SPS 3, entitled Capital Structure?

A. The actual 12/31/09 Current Year End Balance is reflected on this schedule. In addition, the proformed 12/31/09 Year End Balance reflects the impact of the SRF financing and step increase. The related capitalization ratios are shown on the bottom half of the Schedule. Overall, with the additional debt financing, the Company's capital structure becomes more leveraged. The Company believes that earnings will improve with new rates, including the step increase related to this project.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) JE#2, the SRF financing, (2) JE#3, the utilization of the funds for the removal and construction of the plant, (3) JE#8, the repayment of the principal and interest on the loan, and (4) JE#10, the receipt of revenue from the step increase.

Q. How does the Company propose to repay the new debt?

A. The Company's ability to repay the new debt is only possible with approval of new rates including step increase related to this project.

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Q. Would you like to explain SPS-5 – Preliminary Calculation of Revenue Requirement?

A. The sum of the additions to plant of $126,000, less the related accumulated depreciation of $2,800, results in net plant of $123,200. The addition of the net plant of $123,200 results in a total additional rate base of $123,200. The Company is applying a rate of return of 2.42% consisting of the SRF cost of debt of 2.34% plus a 0.80% for the amortization of the financing costs to determine the additional net operating income required of $2,981. In addition, the Company adds total increase in operating expenses of $8,308 to the additional net operating income required in order to determine the total additional revenue requirement of $11,289. The additional revenue requirement of $11,289 added to the 2009 actual operating revenues results in a total revenue requirement of $26,185.

Q. Would you please explain SPS-6?

A. SPS-6 is a schedule of plant and depreciation. The Company is generally using "typical water company service lives and depreciation rates" on the new plant.

Q. Would you please explain SPS-7?

A. SPS-7 is a schedule of state utility property taxes and local property taxes The Company is then applying the 2009 state and local property tax rate to the state and local property tax assessment.

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Q. Would you please explain SPS-8, Income Taxes?

A. SPS-8 is a schedule of state business taxes and federal income taxes. There is no additional federal income and/or state business taxes.

Q. Would you please explain SPS-9, Source and Use of Funds?

A. SPS-9 is a schedule showing the total costs of the project, the total source of funds and the total use of funds.

Q. Would you please explain SPS-10, Estimated Financing Costs?

A. SPS-10 is a schedule showing the estimated costs to pursue and obtain PUC approval of the financing.

Q. What does the Company propose to do with the estimated costs of the financing and step increase?

A. The cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will be added to the annual cost of the debt and reflected in the weighted, average interest rate.

Q. Is there anything else that the Company would like to bring to the Commission's attention?

A. No.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve by NISI order the SRF financing of $126,000 and a step increase amounting to $11,289.

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Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

10/06/10