STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY

DW 11-

PETITION FOR APPROVAL OF FINANCING FOR 2011 CAPITAL ADDITIONS

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 Hampstead Area Water Company's (Company or HAWC) financing request and to prepare the financial exhibits and prefiled direct testimony which describes the financing and the financial schedules. In addition, I am prepared to testify in support of financing.

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 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 Lewis Builders Development, Inc., an affiliated company (Lewis), which will allow it to pay for the proposed 2011 capital additions.

Q. Please describe the financing for the proposed 2011 capital additions.

A. In 2011 the Company is proposing to replace/upgrade/improve the system with various additions to plant. In total, the Company proposes to expend $339,400.00. The proposed 2011 additions to plant includes replacing meters, replacing mains and services, replacing pumps, replacing arsenic media at three stations, replacing a greensand filter, upgrading electrical at shop, etc. A number of the projects, i.e., the replacement meters and the water loss program are DES recommended. A number of other projects, i.e., arsenic media, filter and pumps, improvements to the SCADA system, are critical in order for the system to function.

Q. When does the Company expect that the 2011 additions to plant to be completed?

A. The proposed 2011 additions to plant will be installed throughout 2011 and are expected to be completed before year end. The financing request is for approval of the monies to be advanced by the affiliated company, Lewis Builders Development, Inc., for the cost of the purchase and installation of the proposed 2011 additions to plant.

Q. Please describe the proposed note.

A. The Company will be borrowing $339,400.00 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25% over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 4 to the Petition for Financing.

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 1-1 – SPS 8.

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

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b), identifies the PUC account title and account number. Column (c) identifies the actual December 31, 2010 account balances. Column (d) identifies the adjustments to the December 31, 2010 account balances. Column (e) identifies the adjusted December 31, 2010 account balances and is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2011 Additions to Plant Financing.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $339,400 represents the total additions to plant in service for the costs of the replacing meters, replacing mains and services, replacing pumps, replacing media and a filter, and various other system improvements.

The second adjustment to Accumulated Depreciation for $9,952 represents a half year depreciation on the 2011 additions.

The third adjustment to Cash for $6,007 represents the net of the cash received from the Lewis financing and the anticipated additional revenue when such plant is placed in rate base and reflected in rates less payment for the new plant, payment of the first year principal and interest on the new loan and payment for increase in certain expenses, i.e., taxes.

The fourth adjustment to Miscellaneous Deferred Debits for $3,800 is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of such costs.

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 2011 Additions to Plant Financing.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for $9,444 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation, taxes and interest).

The second adjustment to Other Long Term Debt for $329,811 represents the net amount of the financing of $339,400 and the first year repayment of the loan of $9,589.

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 2011 Additions to Plant Financing.

A. There are 4 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of $44,626 represents the anticipated additional revenues when such plant is placed in rate base and reflected in rates. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Depreciation Expense of $9,952 represents a half year depreciation on the 2011 additions.

The third adjustment to Taxes other than Income of $6,464 and Income Taxes of $138 represents the increase in state and local property taxes and the state business enterprise tax.

The fourth adjustment to Interest Expense including the amortization of the financing costs amounts to $18,628. It represents the first year interest expense on the new loan and the amortization of the financing costs.

Overall, with the additional revenue less the various expenses, the net income amounts to $9,444.

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

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

Q. Please explain the adjustments related to the 2011 Additions to Plant Financing.

A. The actual Current Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the schedule. The Company's debt to equity position is heavily weighted towards debt due to its negative retained earnings. The Company equity position has improved in recent years due to the 2009 conversion of A/P to Associated Company to Other Paid in Capital. With recent rate increases, the Company expects that the ratio will continue to improve.

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) 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 anticipated revenue requirement when the plant is placed in rate base and reflected in rates.

Q. Would you like to explain SPS-5?

A. SPS-5 is a schedule of plant and depreciation for 2011 Capital Additions.

Q. Would you please explain SPS-6, entitled Calculation of Revenue Requirement?

A. The sum of the additions to plant less the related accumulated depreciation result in a rate base of $329,448. The Company is applying the cost of the debt of 5.50% to determine the additional net operating income required. In addition, the Company adds a full year depreciation and taxes to the additional net operating income required in order to determine the total additional revenue requirement of $44,626.

Q. Would you like to explain SPS-7?

A. SPS-7 is a schedule of the Source and Use of Funds for the 2011 Capital Additions.

Q. Would you like to explain SPS-8?

A. SPS-8 is a schedule of the Estimated Cost of Financing for the 2011 Capital Additions.

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

A. At this point, the Company anticipates filing for a rate increase in 2012 based on a 2011 test year. The 2011 additions will be reflected in rate base, the debt financing will be reflected in the rate of return and the various expenses will be reflected in the proforma test year. With an increase in rates, the Company believes that the revenues will be sufficient to pay principal and interest on the loans.

Q. What does the Company propose to do with the costs of the financing?

A. The cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will amortized over the term of the loans.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The 2011 additions to plant allow the Company to continue to operate and maintain the system including more accurate metering, more dependable water supply and better quality water.

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 the financing of the 2011 additions to plant amounting to $339,400.00, under the terms stated previously.

Q. Does this conclude your testimony?

A. Yes.

F:\Legal\HAWC\DW-11-000 2011 Financing Petition\HAWC DW 11-000 - Testimony Of Stephen P S T Cyr 02-24-11.Doc