

**STATE OF NEW HAMPSHIRE**  
**PUBLIC UTILITIES COMMISSION**  
**HAMPSTEAD AREA WATER COMPANY**

**DW 11-**

**PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT  
FOR WATER SERVICE LINE REPLACEMENTS**

**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 the State of New Hampshire via the SRF to pay for the proposed 2012 water service line replacements.

Q. Please describe the financing for the proposed 2012 capital additions.

A. In 2012 the Company is proposing to replace 100 service lines, water shut offs, corporations and saddles in an area of the water system in Atkinson that has been identified to be a leading cause of water loss through leakage. Typically this leakage occurs where old plastic barb adapters and other inadequate fittings have failed. If the water loss is not below 15% by the spring of 2012, the system will face a potential notice of violation. The Company has experienced approximately 26 - 30% water loss in the Walnut Ridge and Hampstead Area water systems over the past 5+ years. The Company believes that this project is a positive step in lowering unaccounted for water. The project will improve energy efficiency by reducing power consumption.

Q. When does the Company expect to start and finish the 2012 water service line replacement project?

A. The Company's anticipated start date is March 2012. The anticipated completion date is October 2012.

Q. Please describe the terms and conditions of the SRF financing.

A. The Company has requested and the NHDES Drinking Water and Groundwater Bureau has approved the Company's requests for \$180,000. The Company anticipates that the loan will be paid back over 20 years at an interest rate of 2.864%.

- 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 2012 water service line replacements and SRF financing.
- A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$135,000 represents the net of the \$180,000 projected costs of the water service line replacements and the \$45,000 retirement of the existing service lines.

The second adjustment to Accumulated Depreciation for (\$42,750) represents the net of the \$45,000 retirement of the existing service lines and a half year depreciation of \$2,250 on the 2012 additions.

The third adjustment to Cash for (\$6,242) represents the net of the cash received from the SRF 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 SRF 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 2012 water service line replacement and the SRF financing.

A. Schedule SPS 1-2 contains 3 adjustments.

The first adjustment to Retained Earnings for \$2,074 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 \$173,234 represents the net amount of the SRF financing of \$180,000 and the first year repayment of the loan of \$6,766.

The third adjustment to Total Net CIAC is zero as the Company reflected the retirement of the CIAC of \$45,000 in both CIAC and Accumulated Amortization of CIAC.

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 2012 water service line replacements and SRF financing.

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

The first adjustment to Operating Revenue of \$13,116 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 \$2,250 represents a half year depreciation on the 2012 additions.

The third adjustment to Taxes other than Income of \$3,487 and Income Taxes of \$38 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 \$5,267. It represents the first year interest expense on the SRF loan and the amortization of the financing costs.

Overall, with the additional revenue less the various expenses, the net income amounts to \$2,074.

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 2012 water service line replacements and the SRF 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 and improved earnings. The addition of the SRF financing does not significantly alter the Company's debt to equity position.

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 SRF, (2) the utilization of the SRF for the water service line replacements, (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 2012 water service line replacements. It shows the total addition to plant of \$180,000, the annual depreciation expense of \$4,500, and the first year accumulated depreciation of \$2,250.

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 an addition to rate base of \$177,750. The Company is applying the anticipated cost of debt of 2.864% to determine the additional net operating income required

of \$5,091. 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 \$13,116.

Q. Would you like to explain SPS-7?

A. SPS-7 is a schedule of the Source and Use of Funds for the 2012 water service line replacements.

Q. Would you like to explain SPS-8?

A. SPS-8 is a schedule of the Estimated Cost of Financing to pursue PUC approval of the SRF financing.

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 2012 additions will be a proforma adjustment to rate base, the SRF financing will be a proforma adjustment to the capital structure and reflected in the determination of the rate of return and the various expenses will also be a proforma adjustment to test year expenses. 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 be amortized over the 20 year term of the SRF loan.

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 2012 water service line replacements

increases reliability of the water systems, reduces water loss, reduces purchased power and treatment expenses.

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

A. No.

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

A. The Company respectfully requests that the PUC approve the SRF financing for the water service line replacements of \$180,000, under the terms and conditions stated previously.

Q. Does this conclude your testimony?

A. Yes.