

Stephen P. St. Cyr & Associates
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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 17-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

September 20, 2017

Stephen P. St. Cyr & Associates

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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 update the financial exhibits and draft prefiled testimony. Also, I am available to testify and represent the Company during the technical session / settlement conference and hearing. In addition, I'm available to review / respond to data requests and other matters related to this filing.

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 general rate increases 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 finance for 3 vehicles with Ford Motor Credit.

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Q. Before you describe the financing, please provide some background.

A. In 2011 the Company purchased a 2011 Ford F350 XL for \$37,301 and financed the purchase with a 7 year note payable with Ford Motor Credit for \$32,509. The F350 XL has 48,334 miles on it, is in bad condition and is in need of replacement in 2017. In 2013 the Company purchased a 2013 Ford F250 Super for \$46,919 and financed the purchase with a 5 year note payable Ford Motor Credit for \$36,918. The F150 Super has 137,020 miles on it and is in need of replacement in 2018. Also, in 2013, the Company purchased a second 2013 Ford F250 Super for \$37,069 and financed the purchase with a 5 year note payable Ford Motor Credit for \$26,536. The F250 Super has 159,555 miles on it and is in need of replacement in 2018.

Q. What are the total costs of the new vehicles?

A. The total costs of the Projects are as follows:

2017 Ford F550	\$66,882
2017 Ford F250	40,990
2017 Ford F250	<u>40,990</u>
Total	<u>\$148,862</u>

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Q. How does the Company propose to finance such costs?

A. The Company proposes to borrow \$148,862 from Ford Motor Credit (“Ford”).

Q. What are the terms and conditions of the Ford financing?

A. The proposed terms and conditions are 5 years at a 4.34% interest rate.

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 replacement of vehicles allows the Company to replace old vehicles, maintain service to its service area and hopefully, lower vehicle operating and maintenance costs.

Q. How is the Company proposing to recover these investments?

A. The Company will recover such investments as part of its next rate case.

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

A. No.

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

A. Yes. Generally, column (a) indicates the line number and column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2016 account balances. Column (d) identifies the pro forma

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adjustments to the December 31, 2016 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2017 additions of 3 vehicles and related Ford financing.

A. Exhibit 1-1 contains 3 adjustments.

The first adjustment to Utility Plant for \$27,573 represents the net of the 3 old vehicles being retired and the 3 new vehicles being added.

The second adjustment to Accumulated Depreciation for \$134,640 represents the net of the 3 old vehicles being retired and the net of the accumulated depreciation.

The third adjustment to Cash for (\$20,542) is the net of the Ford financing and purchase of vehicles and the net of the existing loan payments and the new loan payments.

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

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

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Q. Please explain the adjustments related to 2017 additions of 3 vehicles and related Ford financing.

A. Exhibit SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for \$8,680 represents the net income impact of changes to depreciation and interest expense.

The second adjustment to Other Long Term Debt for \$134,591 represents the amount of the borrowing of \$148,862, the net of the payment of principle payments under the existing loans and the new loans and the net of the financing costs and amortization of such costs over 5 years.

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

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

Q. Please explain the adjustments related to 2017 additions of 3 vehicles and related Ford financing.

A. There are 3 adjustments to the Statement of Income.

The first adjustment to depreciation expense is the net of the depreciation expense on the old vehicles and the new vehicles.

The second adjustment to Interest Expense is the net of the interest expense on the existing loans and the new loan.

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The third adjustment to Amortization of Debt Expense is the first year amortization of the financing costs.

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

A. The actual 2016 Year End Balance is also reflected on the Balance Sheet (see Exhibit 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's debt to equity position is weighted towards equity due primarily to the owner funding past acquisitions / improvements. The net addition of the debt will increase the debt to equity position.

Q. Please explain Exhibit 4, entitled Journal Entries.

A. Exhibit 4 identifies the specific journal entries used to develop the pro forma financial statements. The significant journal entries are JE#2 - the recording of the Ford financing, JE#3 – the purchase of the 3 new vehicles and JE#8 - the repayment of the principal and interest on the new loans.

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

A. The Company proposes to pay the new debt with internal cash until such time as the investments can be added to rate base and reflected in rates.

Q. Would you like to explain Exhibit 5, Preliminary Calculation of Revenue Requirement?

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- A. Exhibit 5 shows the preliminary calculation of the revenue requirement. The preliminary calculation shows an increase in the revenue requirement of \$31,836 or 2.30%.
- Q. Would you please explain Exhibit 6, Weighted Average Cost of Capital?
- A. Exhibit 6 shows the amount of the financing, the interest rate on the Ford loans, the interest expense, the amortization of the financing costs, the total interest, the cost rates, namely 4.33%.
- Q. Would you please explain Exhibit 7, Plant, Accumulated Depreciation and Depreciation Expense?
- A. Exhibit 7 shows PUC account number, a brief description, the cost and the related depreciation rates, annual depreciation costs and the accumulated depreciation at a half year.
- Q. Would you please explain Exhibit 8, the Source and Use Statement?
- A. The source of the funds are Ford Motor Credit. The use of the funds is the purchase of the 3 vehicles.
- Q. Would you please explain Exhibit 9, Estimated Financing Costs?
- A. The Company estimates that it will incur approximately \$2,000 in financing costs associated with updating the exhibits, drafting the testimony and providing oversight during the PUC proceeding.

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

A. The Company respectfully requests that the PUC approve the Ford financing for the purchase of 3 vehicles in 2017 & 2018

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

09/20/2017