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Direct Testimony of Stephen P. St. Cyr in DW 17-165

TEMPORARY RATES

Q. Please state your name and address.

A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.

Q. Please state your present employment position and summarize your professional and educational background.

A. I am presently employed by St. Cyr & Associates, which provides accounting, tax, management and regulatory services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water utilities among its clientele. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission. Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland.

Q. Is St. Cyr & Associates presently providing services to Abenaki Water Company ("Abenaki" or "Company")?

A. Yes. St. Cyr & Associates prepared the various exhibits and supporting schedules and prepared the written testimony and other rate case filing requirements. In addition, St. Cyr & Associates prepares Abenaki's PUC Annual Report.

Q. Are you familiar with the pending rate application of Rosebrook and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related pages and attachments?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company.

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

A. Rosebrook is utilizing the twelve months ended September 30, 2017.

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Q. Before you explain the schedules, please provide a brief overview of Rosebrook.

A. In 2016 Rosebrook was purchased by Abenaki. Since its purchase, Abenaki has invested in Rosebrook's plant, mostly meters. Rosebrook has a well-documented pressure problem. Rosebrook is looking at ways to address the pressure problem including designing the engineering plans and specifications and obtaining the necessary easements reflected in the proposed step increase. Rosebrook will need additional financing for the pressure reduction project.

For the twelve months ended September 30, 2017 (the test year) the actual net loss amounted to $27,247. Abenaki has been losing money on Rosebrook since its acquisition. With the proposed increase in temporary rates and revenues, Rosebrook should be able to eliminate the net loss, recover its investments, earn the PUC approved rate of return on its investment and continue to provide service to its customers at fair and reasonable rates. The temporary rates will enable Rosebrook to stabilize its financial position and will be a step towards permanent rates.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support Rosebrook's efforts to increase rates on a temporary basis.

Q. Please provide an overview of the temporary rate filing.

A. **The temporary rate filing is the same as the permanent rate filing, except for the elimination of certain proforma adjustments that are more appropriately reviewed as part of the permanent rate filing. Rosebrook adjusted the revenue adjustment downward. It eliminated expense adjustments 2 – 8. It also eliminated rate base adjustments 1 – 11. In addition, Rosebrook eliminated the additional 2% increase in the cost of equity. With the elimination of the various adjustments, Rosebrook believes that the temporary increase in rates / revenues is fair, reasonable and manageable. It allows Rosebrook to earn an adequate rate of return on its prudently incurred investments and to pay for its necessary operating expenses. The proposed temporary increase will enable Rosebrook to continue providing good water with good pressure and reliability at a good price. Finally, the temporary rates do not include the proposed step increase.**

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

A. No.

Q. Would you please summarize the temporary rate schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for Temporary Rates for the Test Year ended September 30, 2017," summarizes the supporting schedules. The actual revenue deficiency for Rosebrook for the test year amounts to $48,905. It is based upon an actual test year with a 4 quarter average rate base of $488,114 as summarized in Schedule 3. The Company's actual rate of return is 6.74% for the actual test year. The rate of return of 6.74%, when multiplied by the rate base of $488,114, results in an operating income requirement of $32,920. As shown on Schedule 1, the actual net operating income (loss) for the Company for the test year was ($15,985). The operating income required, less the net operating income (loss), results in an operating income deficiency before taxes of $48,905. The Company did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for the Company of $48,905.

The pro forma revenue deficiency for the Company for the test year amounts to zero. It is based upon the actual test year 4 quarter average rate base of $488,114, as summarized in Schedule 3. The Company is also utilizing the actual rate of return of 6.74%, including the PUC approved 9.6% return on equity. The actual rate of return of 6.74%, when multiplied by the actual 4 quarter average rate base of $488,114, results in an operating net income requirement of $32,920.

As shown on Schedule 1, the pro forma net operating income for the Company for the test year is $32,920. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for the Company of zero.

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Q. Would you please explain Schedule 1 and supporting Schedule 1A – 1C?

A. Schedule 1 reflects Rosebrook's Statement of Income. Column b shows the actual Oct. – Dec. 2016 3 months' balances. Column c shows actual Jan. – Sept. 2017 nine months' balances. Column d actual Oct. 2016 – Sept. 2017 combined balances. Column e shows the pro forma adjustments for known and measurable changes to test year revenues and expenses. The pro forma adjustments are further supported by schedule 1A. Column f shows the pro forma test year balances.

During the twelve months ended September 30, 2017, the actual operating revenues amounted to $270,092. Rosebrook's total operating expenses amounted to $286,077, resulting in a net operating loss of ($15,985). Net Income (Loss) for the same period is ($27,247).

The Company made 1 pro forma adjustment to operating revenues totaling $65,452 and two pro forma adjustments to operating expenses totaling $16,547. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

<u>Pro forma Adjustment to Operating Revenues</u>

<u>Operating Revenues – $65,452</u>

The Company has increased test year revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

<u>Pro forma Adjustments to Expense</u>

Operating Expenses:

<u>PUC Audit - $0</u>

<u>Lease Agreements - $0</u>

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Amortization of Organizational Costs - $0

Amortization of Utility Plant Acquisition Costs - $0

Taxes other than Income Taxes - $0

Income Taxes - $16,547

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

The total pro forma adjustments to Operating Expenses amount to $16,547.

The net of the pro forma adjustments to operating revenue of $65,452 and the pro forma adjustments to operating expenses of $16,547 results in a net pro forma adjustment of $48,905. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $32,920. The pro forma test year net operating income of $32,920 allows Rosebrook to cover its expenses and earn its proposed 6.74% return on its investments.

Q. Does that complete your description of the pro forma adjustments to revenues and expenses?

A. Yes.

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Q. Please describe Schedule 2, the Balance Sheet.

A. Please note that the Balance Sheet is for Abenaki (Total Company) and not just Rosebrook. Abenaki has $2,002,892 total assets at September 30, 2017. $1,689,653 of the $2,002,892 total assets is total net utility plant, of which is completed and providing service to customers. Abenaki has $636,755 of total equity capital. Abenaki incurred a loss in 2016, which reduced retained earning and total equity. Abenaki has $576,965 of long term debt. The long term debt balance has decreased due to payment of principal on the two outstanding loans. Accounts payable to Associated Co. has increased during the test year. A portion of the plant has been contributed.

Q. Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

A. Schedule 3 reflects Rosebrook's Rate Base for both the 4 quarter average and the pro forma year-end balance. Column b – e shows the actual balance at the end of each quarter. Column f shows the average of the 4 quarter balances. Column g shows the pro forma adjustments. Column h shows the pro forma year-end balance.

For temporary rate purposes, Rosebrook has eliminated all the rate base proforma adjustments. The Total Pro Forma September 30, 2017 Rate Base balance amounts to $488,114.

Q. Would you please explain Schedule 4, Rate of Return Information?

A. Please note that the Rate of Return Information is for Abenaki (Total Company) and not just Rosebrook. Schedule 4 reflects the overall rate of return of 6.74% for both actual and profoma, respectively. The weighted average rate of return for the actual test year is 6.74%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return. Rosebrook made no adjustment to the actual rate of return for temporary rates.

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Schedule 4 also reflects both the capital structure and the capital ratios. Abenaki has provided the capital structure for the actual test year and the pro forma test year. It should be noted that prior to the purchase of Rosebrook, Rosebrook's capital structure consisted entirely of equity capital. With both debt and equity used to finance the purchase, the capital structure is better balanced and results in a lower rate of return.

In addition, Schedule 4 reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 9/30/17 Abenaki has $592,281 of outstanding long term debt. Total interest expense for the twelve months ended September 30, 2017 is $21,762. The September 30, 2017 actual cost of debt was 3.67%. There was no change to the long term debt, interest expense and financing costs for the pro forma test year.

Q. Please explain the Report of Proposed Rate Changes.

A. If Rosebrook's temporary rate filing is approved as submitted, its total water Operating Revenues will amount to $335,544.

Q. Is Rosebrook proposing any changes to the methodology used in calculating the rates?

A. Yes. Rosebrook needs to increase its revenue from the monthly charges. The present rates generate approximately 31% of the total revenues via the quarterly charges. Rosebrook believes that the percentage from quarterly charges should be closer to 50%, particularly due to the seasonal nature of the service area. As such, for temporary rate purposes, Rosebrook proposes to increase the quarterly charge by 1.5 times. With the monthly charges increasing by 1.5 times, the proposed rates would generate approximately 37% of the total revenue, and get Rosebrook half way to what it proposed for permanent rates.

Q. When is Rosebrook proposing that the new rates be effective?

A. The proposed effective date is January 1, 2018.

Q. Is there anything else that Rosebrook would like to address?

A. Yes. Roseboork has eliminated its proposed step increase for purposes of temporary rates.

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Q. Would you please summarize what the Company is requesting in its rate filing?

A. The Company respectfully requests that the Commissioners approve an increase in annual revenues of $65,452 for temporary rates.

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

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
01/16/18