

STATE OF NEW HAMPSHIRE
PUBLIC UTILITES COMMISSION

DOCKET NO. 18-xxx

DIRECT TESTIMONY OF STEPHEN P. ST. CYR
ON BEHALF OF HAMPSTEAD AREA WATER COMPANY

January 31, 2018

1 Q. Please state your name and business address for the record.

2 A. My name is Stephen P. St. Cyr. My business address is 17 Sky Oaks Drive, Biddeford,
3 ME 04005.

4 Q. Please summarize your professional experience and education background.

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

13 Q. What is your business relationship with Hampstead Area Water Company (“HAWC”)?

14 A. St. Cyr & Associates reviews HAWC’s financial statements, prepares its PUC Annual
15 Report and federal tax return, and assist HAWC with its NHPUC regulatory filing including
16 requests for expansion of franchise area, requests for financings and requests for rate increases.

17 Q. Have you previously testified before the NHPUC?

18 A. Yes, I have testified many times. I’m currently working with HAWC in its request for an
19 increase in rates in DW 17-118.

20 Q. What is the purpose of your testimony?

21 A. The purpose of my testimony is to support HAWC effort to increase its cost of equity.

22 Q. Please provide an assessment of HAWC current financial position.

1 A. As of 12/31/16 HAWC has total assets of \$11,771,354, of which \$10,539,600 is net
2 utility plant. It also has \$11,771,354 of total equity and liabilities. Its total equity amounts to
3 \$1,991,879. Its total long-term debt amounts to \$4,190,879. Its total net contribution in aid of
4 construction (“CIAC”) amounts to \$5,477,917. It has a substantial amount of CIAC due to an
5 affiliated company and other developers contributing a substantial amount of water plant to
6 HAWC.

7 It had \$1,790,467 of operating revenue in 2016. It also had \$1,600,570 of operating
8 expenses, resulting in \$189,897 of net operating income. Its 2016 net income amounted to
9 \$35,000. Its actual 2016 rate of return was 3.75%, substantially less than its authorized rate of
10 return of 4.89% as was approved in PUC Docket No. DW 12-170.

11 Q. What is the current capital structure?

12 A. The 2016 capital structure totaled \$6,182,765 including \$1,991,879 (32.22%) of equity
13 and \$4,190,886 (67.78%) of debt.

14 Q. What are the current PUC approved rate of return and return on equity?

15 A. The presently PUC approved rate of return is 4.89% and return on equity is 9.75%

16 Q. What is the current PUC approved return on equity for all water companies?

17 A. The current PUC approved return on equity is 9.6%.

18 Q. Please provide a brief history of recent debt and equity financings?

19 A. In 2016 HAWC refinance two TDBank loans amounting to \$2,167,000 over 15 years at
20 an interest rate of 3.25%. In 2016 the shareholder contributed \$500,000 of other paid in capital
21 and in 2017 the shareholder contributed \$400,000 of other paid in capital.

22 Q. Has HAWC sought an increase above the PUC approved return on equity?

1 A. Yes. In DW 12-170, HAWC initially proposed a cost of common equity of 9.75% plus
2 1.00%. HAWC believed that the additional 1.00% was necessary due to the increased risks
3 associated with the size and resources available to meet HAWC's capital and operating
4 requirements.

5 Q. What was the result of the cost of equity in DW 12-170?

6 A. HAWC settled on the PUC approved cost of equity of 9.75%.

7 Q. Please provide any general comments on Ms. Ahern's testimony.

8 A. HAWC supports Ms. Ahern's testimony as it pertains to a range of size premiums of
9 2.31% – 4.61%. HAWC also supports Ms. Ahern's Low Size – High Size Risk Premium range
10 of 11.83% - 21.09%.

11 Q. Is there anything that you would like to add to Ms. Ahern's testimony?

12 A. No.

13 Q. Do you support Ms. Ahern's testimony?

14 A. Yes.

15 Q. How will the results of Ms. Ahern's testimony impact HAWC?

16 A. HAWC intends to incorporate the results of the ROE docket into DW 17-118.

17 Q. Does this conclude your testimony?

18 A. Yes.