Stephen P. St. Cyr & Associates
17 Sky Oaks Drive
Biddeford, Me. 04005
207-423-0215
stephenpstcyr@yahoo.com

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Re: Lakes Region Water Company

DW 22-____

DIRECT PREFILED TESTIMONY OF STEPHEN P. ST. CYR

December 16, 2022

Stephen P. St. Cyr & Associates
17 Sky Oaks Drive
Biddeford, Me. 04005
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stephenpstcyr@yahoo.com

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 prepare the petition, prefiled testimony and financial exhibits. In addition, I am available to represent the Lakes Region Water Company ("LRWC" or "Company") during the technical session / settlement conference and hearing and to 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 ("PUC"), 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.

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Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to secure a term loan of up to 20 years and a maximum of $862,080 to develop a new well source, to construct new pump and meter station and connect to existing water system at Paradise Shores. Please see Mr. Mason's testimony for a description of the project.

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

A. In NHDES's 2021 Sanitary Survey for the Company's Paradise Shores water system (PWS 1612010), NHDES did not find any significant deficiencies. It did however provide a list of issues that NHDES recommend the managers consider to maintain compliance, and continue to provide an acceptable level of service. Among the list of issues was to "locate, develop, and permit an additional drinking water source to maintain a sufficient supply to meet demand. Based on sustainable yields of the wells, the total capacity of 115,200 gpd does not meet the reported maximum day demand of 120,000 gpd. See Mr. Mason's testimony for further information.

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Q. What are the total costs of the well project?

A. The total costs of the well project are $862,080. See SPS 7 for breakdown of costs by plant account.

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

A. The Company proposes to borrow $862,080 from CoBank.

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

A. The proposed terms and conditions are 20 years at an estimated 6.75% interest rate. Such terms and conditions are consistent with the recently PUC approved CoBank financing for the Company.

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 addition of a new well source is needed at Paradise Shores.

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

A. Approximately 66% of the investment and related expenses will be recovered from the Company's POASI customers via the POASI Contract. The remaining approximately 34% of the investment will be recovered from ratepayers over time. The timing of such recovery has not yet been determined.

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

A. No.

Q. Would you please explain Schedule SPS 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, 2021 account balances. Column (d) identifies the pro forma adjustments to the December 31, 2021 account balances. Column (e) is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2022 / 2023 additions to plant and related financings.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for $862,080 represents the addition to utility plant for the Paradise Shore well project. There are no related retirements.

The second adjustment to Accumulated Depreciation for ($15,506) represents the related half year depreciation on additions to utility plant.

The third adjustment to Cash for ($10,702) is the net of the cash received from the CoBank loan, the funds expended on the plant, the projected increase in revenues less the projected increase in expenses.

The fourth adjustment to Unamortized Debt Expense for $19,546 represents the net of the financing costs and the amortization of such costs over 20 years, the life of the loan.

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 2022 / 2023 addition to plant and related financings.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for $14,452 represents the net income impact of changes to revenue, operating expenses and interest expense.

The second adjustment to Other Long Term Debt for $840,966 represents the net amount of borrowing $862,080 and the first year repayment of principal on the loan of $21,114.

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

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to 2022 / 2023 addition to plant and related financings.

A. There are 5 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of $95,904 represents the additional revenue needed in order to recover the Company's investment and to pay back the CoBank loan.

The second and third adjustments to Operating Expenses are for increases associated with depreciation and property taxes.

The fourth and fifth adjustments to Interest Expense and Amortization of Debt Expense represent the first year interest expense on the new debt and the first year amortization of the financing costs.

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

A. The actual 2021 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 weighted towards equity due the accumulation of past net income as reflected in retained earnings. The net addition of the debt will increase the 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 pro forma financial statements. The significant journal entries are the recording of JE#2 - the debt financing, JE#3 – the addition to plant, JE#7 - the repayment of the principal and interest on the loan and JE#9 - the anticipated receipt of revenue.

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

A. The Company's ability to repay the new debt is only possible with an increase to the annual POASI contract amounts and the increase in rates to ratepayers.

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

A. SPS-5 shows the projected increase, amounting to an increase in net revenue of $95,904 or 5.97% for the LRWC customers including POASI. Please note that approximately 66% of the investment, revenue and expenses will be paid for by POASI. The projected rate increase allows the Company to recover its investment in the improvements and earn a return on such investments.

Q. Would you please explain SPS-6, Weighted Average Cost of Capital?

A. SPS-6 shows the amount of the financings, weighted average percentages, the interest rate on the CoBank loan, the interest expense, the amortization of the financing costs, the total interest, the cost rates and the weighted average cost of capital, namely 6.79%.

Q. Would you please explain SPS-7, Plant, Accumulated Depreciation, Depreciation Expense and Property Taxes?

A. SPS-7 is a schedule of costs by plant account and the related depreciation rates, annual depreciation expense and the accumulated depreciation at a half year. Also, shown on SPS-7 is the calculation of both state and local property taxes.

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Q. Would you please explain SPS-8, the Source and Use Statement?

A. The sources of the funds are CoBank. The use of the funds is the PS well project.

Q. Would you please explain SPS-9, Estimated Financing Costs?

A. The Company estimates that it will incur approximately $20,575 in financing costs. The estimate is based on the actual financing costs incurred in DW 19-135.

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

A. The Company respectfully requests that the PUC approve the CoBank loan for a maximum of $862,080 to develop a new well source, to construct new pump and meter station and to connect new well source to existing water system.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr

12/16/2022