

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 11-193

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Financing

Order *Nisi* Approving Financing

ORDER NO. 25,316

January 10, 2012

I. BACKGROUND

On September 2, 2011, Hampstead Area Water Company, Inc. (HAWC) filed a petition with the Commission seeking authority to borrow \$339,400 in long term debt pursuant to RSA 369:1. HAWC also filed testimony, schedules, and a promissory note. On September 13, 2011, HAWC filed the remainder of the exhibits supporting the financing request. On December 2, 2011, HAWC filed a copy of a vote taken by its Board of Directors authorizing HAWC to enter into the loan transaction with its affiliate, Lewis Builders Development, Inc. (LBDI). The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-193.html>.

The purpose of HAWC's proposed financing is to finance 2011 capital improvements which include: pump, meter, and main replacements, a new SCADA system at the company's Kent Farm system, replacement of arsenic filtering media at three systems, and costs related to a

continuation of the company's water loss and leak detection program.¹ HAWC states that some of these improvements are recommended by the Department of Environmental Services (DES).

The proposed financing is for a 20-year term at an interest rate set at the Wall Street Journal prime rate plus 2.25%, which would currently yield an interest rate of 5.50%. The interest rate will be adjusted every three years on the anniversary of the note's execution.

On December 2, 2011, Commission Staff filed a recommendation and attached discovery responses, urging approval of HAWC's petition. Staff stated that it concurred with the proposed use of the funds for capital improvements in HAWC's various water systems, and that the terms of the proposed financing were reasonable. Staff stated that the impact of the financing and related capital improvements would potentially represent about a 2.7% increase in customer bills when HAWC seeks recovery of the capital projects. Finally, Staff stated that, while HAWC's debt to equity ratio was high, at about 85/15, HAWC had taken steps to address its capital structure and that this issue would be re-visited in HAWC's next rate case, which it expects to file in 2012.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities engaged in business in this state may issue evidence of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." Analysis of the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds, and the effect on rates, to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have previously noted, "certain financing

¹ The complete list of the capital improvements to be financed with the proposed loan is attached to the company's petition as exhibit 1.

related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing.” *In re PSNH*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

HAWC seeks to borrow \$339,400 to finance capital improvements for its water systems. The capital investments listed in the petition are consistent with management decisions the Commission expects to be made in the course of proper utility operation. Our review of the use of the proceeds of the proposed loan is thus on the more routine end of the spectrum. Water loss has been raised in previous proceedings, and HAWC is undertaking this program upon the advice of the DES. After review of the capital improvements as detailed in the company’s filing, and considering the Staff recommendation, we find the use of the proceeds of the financing to be reasonable and appropriate.

The terms of the proposed loan from LBDI are consistent with other recent affiliate loans taken by HAWC. The funds will be lent on a 20-year term at a rate set at the Wall Street Journal prime rate plus 2.25%, currently equal to 5.50%. The interest rate will be adjusted on a three year basis. Future rate impact resulting from this financing and the associated capital improvements is estimated to be about 2.7%. HAWC’s debt-to-equity ratio remains highly leveraged, at about 85/15 after including this new financing, but this issue will be further addressed in HAWC’s anticipated 2012 rate case. We agree that the issue should be further reviewed, while also recognizing that HAWC’s affiliation with LBDI and the continued willingness of LBDI to lend funds to the utility benefits the utility and its customers. We find the terms and the effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find that HAWC has demonstrated that the capital improvements to be financed will enable it to provide better service to its customers at an advantageous cost. Accordingly, we find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing. This approval is given on condition that the final terms are not substantially different from those proposed in HAWC's filing. If such terms vary significantly, we will require HAWC to seek additional Commission approval. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, HAWC's request for financing approval, under the terms and conditions contained in HAWC's petition and for the purpose as outlined herein, is hereby APPROVED; and it is

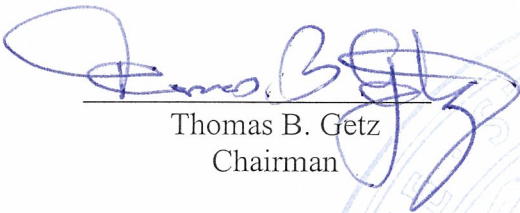
FURTHER ORDERED, that HAWC shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than January 20, 2012 and to be documented by affidavit filed with this office on or before February 9, 2012; and it is

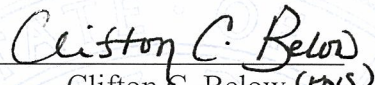
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 27, 2012 for the Commission's consideration; and it is

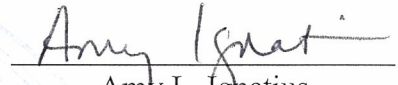
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than February 2, 2012; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective February 9, 2012, unless HAWC fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.


By order of the Public Utilities Commission of New Hampshire this tenth day of January, 2012.

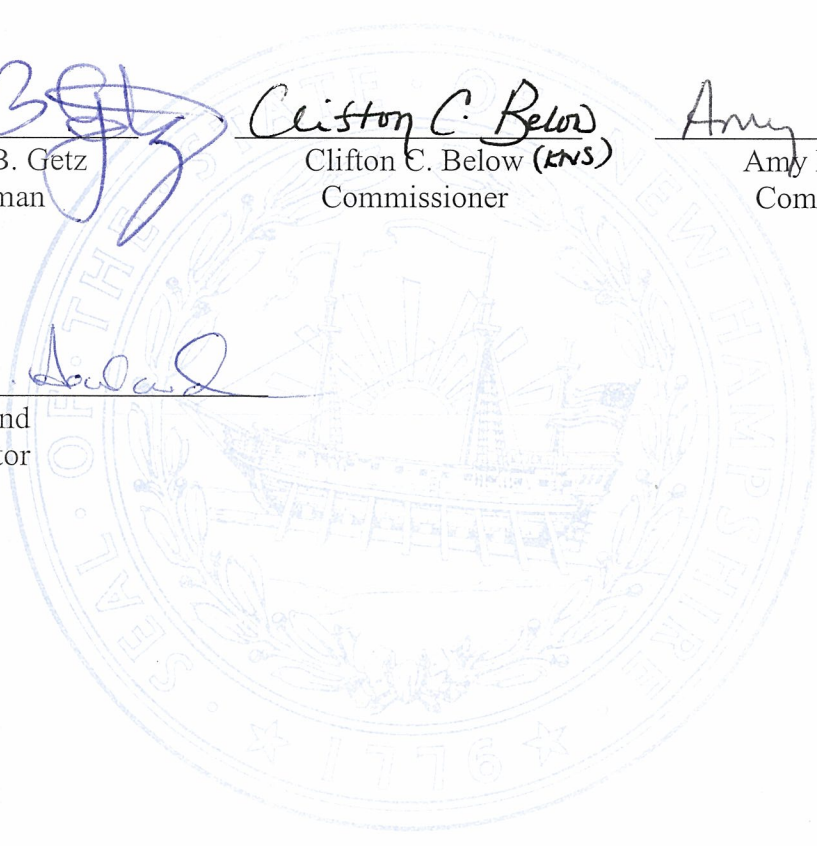

Thomas B. Getz
Chairman


Clifton C. Below (KNS)
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director



SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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