

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION
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Concord, N.H. 03301-2429

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December 1, 2011

Ms. Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DW 11-226 Hampstead Area Water Company, Inc.
Petition for Authority to Borrow Long Term Debt for Water Service Line
Replacements

Dear Ms. Howland:

On October 6, 2011, Hampstead Area Water Company, Inc. (HAWC) filed a petition, pursuant to RSA 369, seeking authority to borrow up to \$180,000 in long term debt. HAWC is a regulated water utility pursuant to RSA 362:2 and 362:4 and serves approximately 2,950 customers in various communities in southern New Hampshire. HAWC's proposed financing is from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). Included with HAWC's petition is the direct testimony of Harold Morse, President of HAWC, and Stephen P. St. Cyr, a financial consultant for HAWC. Staff propounded discovery to HAWC on October 20, 2011 which was responded to on November 3, 2011. On December 1, 2011, HAWC filed a copy of a resolution of its Board of Directors, authorizing it to enter into this proposed financing. Copies of HAWC's responses and Board of Directors resolution are attached to this correspondence.

The purpose of HAWC's proposed financing is for the replacement of water service lines, running from the main water distribution line to the shutoffs, for 100 customers in its core system in the Town of Atkinson. HAWC has experienced approximately a 26 – 30% water loss in its Walnut Ridge and Hampstead Area water systems over the past five years. The service lines which HAWC is seeking to replace are located within its Walnut Ridge system and are some of the oldest contained in this system; having been in service for as many as 45 years. HAWC indicated that it has performed a number of leak repairs in this portion of the system over the past 5 to 10 years. The 100 service lines to be replaced represent approximately 34% of the original Walnut Ridge system. Additionally, the

Petition for Authority to Borrow Long Term Debt

NHDES has informed HAWC that if its water loss is not reduced to below 15% by the spring of 2012, it may be subject to an enforcement action unless an appropriate waiver is obtained. HAWC believes that the proposed service replacements are an appropriate step towards reducing its water losses as well as lowering its power consumption through a reduced need for pumping. The anticipated start date for the project is March 2012 with completion anticipated by October 2012.

In a letter dated September 29, 2011, the NHDES notified HAWC that the proposed project was eligible for SRF financing. The anticipated terms of the loan will be similar to other SRF financings that have been previously approved by the Commission. The term of the loan will be 20 years at an interest rate that is currently anticipated to be 2.864%. In its response to Staff Data Request 1-5, HAWC indicated that it expects that interest will accrue at an annual rate of 1% on disbursed amounts through the date that the project is substantially completed and that payments of principal and interest will begin six months thereafter.

In order to service this additional debt, HAWC anticipates filing for a rate increase in 2012 based on a 2011 test year. It is Staff's assumption that HAWC's petition for a rate increase will also include a request for a step adjustment in order to obtain rate recovery for this 2012 project. Presently, HAWC estimates that this project will increase its currently approved revenue requirement by \$13,116, or 0.89%. This will increase HAWC's consumption rate by approximately \$0.06 per ccf. An average residential customer using 8,800 cubic feet of water annually would see an increase of \$0.44 in their average monthly bill.

Staff has thoroughly reviewed HAWC's petition and supports the proposed financing as presented. The impact of adding this additional debt on HAWC's capital structure is minimal; Staff has provided some general comments about this issue in its recommendation in DW 11-193, filed on or about December 1. Staff expects to explore further the issue of capital structure in HAWC's anticipated 2012 rate case. Importantly, the procurement of an SRF loan for this project ensures that HAWC will finance these improvements at the lowest possible cost to customers. Therefore, the future rate impact to customers, as indicated above, will be minimal. The project will help to address HAWC's water loss issues stemming from its aging Walnut Ridge system. Staff, therefore, recommends approval of HAWC's request for authority to borrow up to \$180,000 from the SRF to finance needed service replacements in its Atkinson water system.

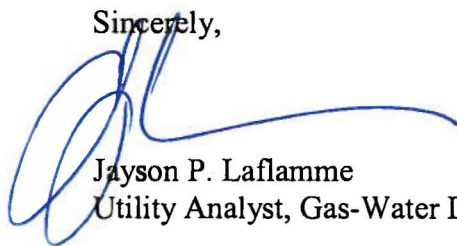
DW 11-226: Hampstead Area Water Company, Inc.

December 1, 2011

Petition for Authority to Borrow Long Term Debt

If there are any questions regarding this matter, please let me know.

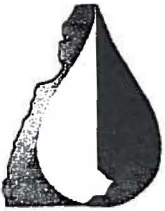
Sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'J' followed by a horizontal line extending to the right.

Jayson P. Laflamme
Utility Analyst, Gas-Water Division

Attachment: Discovery Responses
Board of Directors Resolution

cc: Service List



HAMPSTEAD AREA

WATER COMPANY, INC

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936
www.hampsteadwater.com

November 3, 2011

Marcia Thunberg, Esq.
NH PUC
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

RE: DW-11-226
Answers to Staff Data Requests – Set 1

Dear Marcia:

Please find enclosed the Company's Answers to Staff Data Requests – Set 1 regarding the above referenced docket. An electronic copy via email has also been sent to you and all persons on the service list.

Thank you for your assistance in this regard. Don't hesitate to call me if you have any questions.

Very truly yours,


Robert C. Levine, Esq.
General Counsel

Enclosures
RCL/ja

cc: HAWC Mgrs.
Stephen St. Cyr
11-226 Service List

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-1

Date of Response: 10/27/11
Witness: Charles Lanza

Mr. St. Cyr on page 2 of his testimony indicates 100 service lines will be replaced "in an area of the water system in Atkinson that has been identified to be a leading cause of water loss through leakage". In this regard:

- a) Please indicate the location of the area of concern.
- b) Please elaborate on how the area was identified as having higher water losses than other parts of the core system, including any quantification or estimates of losses within the area.
- c) What portion of service lines within the area do the 100 lines represent?
- d) Please describe on what bases the 100 service lines have been or will be selected.
- e) To what extent will the replacements include larger, non-residential lines?
- f) Please indicate the typical ages and materials of the service lines to be replaced.
- g) What materials will the lines be replaced with?
- h) Why are the losses believed to be primarily associated with service lines and not mains?
- i) How much are the proposed replacements anticipated to reduce annual water losses?

Response:

- a) The area of concern is located primarily along Old Coach Road, Oak Hill Circle, but also includes services in the original "Walnut Ridge Water System" area. This area includes Hawthorne Drive, Walker Road, Summit Drive, Christine Drive, Wood Drive, and Sunset Drive.
- b) The North West section of the Walnut Ridge Water System has previously been isolated such that meter readings could be taken for a one month period in 2009 on both consumption and production. This data indicated that approximately 60% of water loss in the Walnut Ridge Water System was attributed to a small portion of the system that was isolated during the study. In addition to the study that was performed in 2009 numerous leak repairs have been performed within the original "Walnut Ridge Water System" over the last 5-10 years. It is also important to note that this section of the system is the oldest section in Atkinson and in some cases is 45+ years old.
- c) There are approximately 305 services in the original "Walnut Ridge System". The 100 service lines to be replaced represent approximately 34% of the original Walnut Ridge Water System.
- d) HAWC will review existing account records to determine which services have had recent repairs and the oldest and most problematic portions of the system that do not indicate they have been previously replaced will be included in the 100 service lines to be replaced.
- e) This project does not include the replacement or repair of larger water lines.
- f) The approximate age of materials to be replaced range from 40-45 years.

- g) The service lines will be replaced in accordance with HAWC Specifications. This includes 200 PSI CTS High Density Polyethylene (HDPE) Pipe and brass CTS compression fittings. Valves and saddles will be replaced with brass fittings meeting HAWC Specifications.
- h) Losses are primarily believed to be associated with the service lines in this area of the system based on Company experience. The majority of the time the leak is found at the main where the service line connects to the main or at the customer shut off. This is primarily due to deteriorating plastic barb adapters and saddles.
- i) It is unknown exactly what percentage this work will reduce the water loss by, however if you were to assume all water loss in the section that was isolated during the 2009 study were to be accounted for during these service line repairs the unaccounted-for water would decrease from approximately 27% to 17%. This is unlikely as other areas that are not included in these repairs are serviced off of the area that was isolated during the study.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-2

Date of Response: 10/27/11
Witness: Charles Lanza

Please elaborate on the statement on page 2 of Mr. St. Cyr's testimony that "If the water loss is not below 15% by the spring of 2012, the system will face a potential notice of violation."

Response: This statement is based on a letter from the NH Department of Environmental Services (DES) dated June 3, 2011 in regards to the Company's Conservation Plan Progress Report. The letter clearly states that if the Company does not reduce water loss below 15% by April 7, 2012 the Company will be subject to enforcement action unless a waiver is requested with supporting justification in accordance with Env-Wq 2101.09.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-3

Date of Response: 10/27/11
Witness: Robert Levine

Please provide a copy of the company's SRF application to NHDES for the project.

Response: The award of eligibility was made upon the pre-application. The pre-application is attached. The final application will be submitted upon its completion.

**NH DWSRF Preapplication for Community Water Systems - Deadline July 1, 2011**

	100%
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The DES Drinking Water and Groundwater Bureau is seeking pre-applications per RSA 486:14 NH Drinking Water State Revolving Loan Fund, for community water system infrastructure improvements. Project ranking will be based on compliance with the SDWA, protection of public health and affordability. Projects including interconnections, water and/or energy efficiency or other green infrastructure components will receive additional ranking points. Deadline for pre-applications is July 1, 2011.

For additional information, please visit
www.des.nh.gov, Grants and Loans page / DWSRF or contact

Dave Kelly at 271-2472, David.Kelly@des.nh.gov
Rick Skarinka at 271-2948 or Richard.Skarinka@des.nh.gov
NHDES Drinking Water and Groundwater Bureau
PO Box 95, 29 Hazen Drive, Concord NH 03302-0095
Fax 603-271-5171

*** 1. Public Water System Information**

PWS Name:	Walnut Ridge Water System
PWS ID:	0112080
Town:	Atkinson

*** 2. Project Title:**

Water Service Line Replacements

*** 3. Provide a concise description of the project need, how it will address public health protection and compliance with the Safe Drinking Water Act, including any energy and water efficiency components. (Max 10 lines)**

Hampstead Area Water Company (HAWC) has experienced approximately 26 to 30% water loss in the Walnut Ridge & Hampstead Area Water System over the past 5+ years. In 2008 a water conservation plan was approved by Derek Bennett, from the DES Water Use & Conversation Division, and HAWC has been working to comply with this plan to reduce water loss. HAWC is proposing to replace 100 service lines, water shut offs, corporations, and saddles in an area of the system in Atkinson that has been pin pointed to be the leading cause for actual water loss through leakage. Typically this leakage occurs where old plastic barb adapters and other inadequate fittings have failed. If the water loss is not below 15% by the spring of 2012 the system will face a potential Notice of Violation. HAWC feels that this project is a positive step in the right direction in helping to lower unaccounted-for water. This project would in turn allow for improved energy efficiency by significantly reducing power consumption and also

*** 4. Project Cost Information**

Estimated Construction Cost (\$)	150,000
10% Construction Cost Contingency	15,000
Estimated Engineering / Planning Cost (\$)	15,000
Other Costs (\$)	
Please describe other costs:	
Total Estimated Costs (\$)	180,000
Amount of Loan requested (\$)	180,000

*** 5. Percentage of total estimated costs allocated to:**

Water Efficiency (%)	50
Energy Efficiency (%)	50
Green Infrastructure (%)	

*** 6. Current Residential Water Rate based on 100,000 gallons/year. If cost of water is Included in other charges (rent, condominium fee), break out the estimated annual cost per unit for water.**

755

*** 7. Project Schedule**

Date you will have Authority to Borrow Funds (Town or Water System Annual Meeting):	PUC Approval
Anticipated Project Design start date:	3/2012
Anticipated Construction Contract Award date:	6/2012
Anticipated Project Completion date:	10/2012

*** 8. Requested Loan Term**

5 years (0.8950%)

15 years (2.6850%)

10 years (1.7900%)

20 years (2.8640%)

*** 9. Contact Person Information**

Name:

Charlie Lanza

Title:

Project Manager / Water Operator

Email:

charlie@hampsteadwater.com

Telephone Number:

603-362-4299

BEFORE YOU CLICK THE "DONE" BUTTON, PRINT A COPY OF YOUR COMPLETED PRE-APPLICATION FOR YOUR RECORDS BY USING THE "FILE" MENU ON YOUR BROWSER AND SELECTING "PRINT.."
NOTE THAT ALL QUESTIONS MUST BE COMPLETED FOR YOUR APPLICATION TO BE PROCESSED.

Done

Powered by **SurveyMonkey**
Create your own free online survey now!

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11

Date of Response: 10/27/11

Staff 1-4

Witness: Charles Lanza

Please indicate whether the project will be put out to bid. If not, please explain why not and what entity will do the work.

This project will not be put out to bid. It will be performed as force account work by current or future Company employees. This will not be put out to bid because the Company feels the work will be best performed by the Company. It also will reduce engineering and administrative costs as a bid package will not be necessary.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11

Date of Response: 10/27/11

Staff 1-5

Witness: Robert Levine

Petition paragraph 5.d indicates SRF loan repayment will begin 30 days from date of closing. Please explain why repayment would not follow the more typical SRF timetable of interest accruing at an annual rate of 1% on disbursed amounts through the date of substantial completion, with repayment of principal and interest beginning 6 months after that.

Response: The Company expects the repayment to follow the more typical SRF timetable as state above.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-6

Date of Response: 10/27/11
Witness: Charles Lanza

Is any principal forgiveness anticipated? Please explain.

Response: This project is not eligible for principal forgiveness, per DES.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-7

Date of Response: 10/27/11
Witness: Stephen P. St. Cyr

What is the anticipated future rate impact of the project for a typical residential customer?

Response: Utilizing 2010 actual consumption of 227,058 ccf, the anticipated future impact of the project for a typical residential customer would be \$0.06 ccf (\$13,116 / 227,058). This would increase the current consumption rate of \$4.74 to \$4.80 per ccf.

Hampstead Area Water Co., Inc.
Petition for Authority to Borrow Long Term Debt
DW 11-226
Staff Data Requests - Set 1
Answers

Date request received: 10/20/11
Staff 1-8

Date of Response: 10/27/11
Witness: Robert Levine

Is the company seeking approval to grant a security interest in any of its assets in relation to the proposed borrowing? Please explain.

Response: While this has occurred in the past with prior SRF borrowing, there has been no indication that this would be required. If this becomes a requirement of DES, for the borrowing, the Company will request approval for same.

THE HAMPSTEAD AREA WATER COMPANY, INC. (the "Corporation")


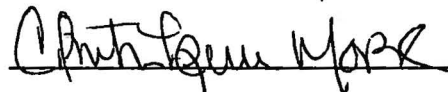
**CERTIFICATE REGARDING
INCUMBENCY AND RESOLUTIONS
RE: SRF FINANCING**

The undersigned, is the duly elected, qualified, and acting Secretary of THE HAMPSTEAD AREA WATER COMPANY, INC., a duly organized New Hampshire corporation, and does hereby certify as follows:

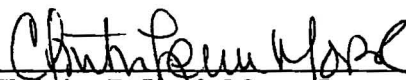
(a) Harold J. Morse is the duly elected, qualified and acting President and Treasurer of this Corporation (hereinafter, the "CORPORATION"). Christine R. Lewis Morse is the duly elected, qualified and acting Vice President and Secretary of this Corporation (hereinafter, the "CORPORATION"). The signatures below are their true signatures.

(b) The CORPORATION has duly adopted the resolutions set forth and attached hereto and dated as of the date set forth therein, none of which has been amended or repealed in any respect since such date, and all of which remain in full force and effect as of the date hereof.

(c) Attached hereto is the signature of the officers of the CORPORATION set forth opposite his and her name and said signature is true.

<u>NAME</u>	<u>TITLE</u>	<u>SIGNATURE</u>
Harold J. Morse	President & Treas.	
Christine R. Lewis Morse	VP/Secretary	

IN WITNESS WHEREOF, the undersigned has caused this certificate to be executed on behalf of said corporation.

By: 
Christine R. Lewis Morse, Secretary

SECRETARY'S CERTIFICATE


The undersigned, being the Secretary of The Hampstead Area Water Company, Inc., a New Hampshire corporation with a principal place of business at 54 Sawyer Ave., Atkinson, NH, does hereby certify as follows:


At a Special Meeting of the shareholders of the corporation held on September 21, 2011, it was unanimously:

VOTED: The President and Treasurer of the corporation, jointly and/or severally, and each of them on behalf of the Corporation, to execute a Promissory Note and to otherwise execute, acknowledge and deliver any and all documents relating to a loan by the State of New Hampshire, Department of Environmental Services State Revolving Fund and for a term loan in the original principal amount of \$180,000.00, and to execute and deliver such other documents, instruments, agreements and guarantees necessary and proper to consummate the transactions contemplated hereunder.

Dated: September 21, 2011

THE HAMPSTEAD AREA WATER COMPANY,
INC.


Witness

By: 
Christine Lewis Morse, Secretary

THE HAMPSTEAD AREA WATER COMPANY, INC.

RESOLUTION AND VOTE

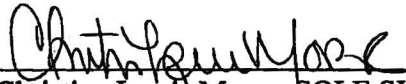
The undersigned, as SHAREHOLDERS of **THE HAMPSTEAD AREA WATER COMPANY, INC.**, a New Hampshire CORPORATION (hereinafter, the "Corporation"), hereby certifies that, by unanimous consent of the shareholders, on September 21, 2011, the following resolutions were unanimously adopted:

VOTED: The President and Treasurer of the corporation, jointly and/or severally, and each of them on behalf of the Corporation, to execute a Promissory Note and to otherwise execute, acknowledge and deliver any and all documents relating to a loan by the State of New Hampshire, Department of Environmental Services State Revolving Fund and for a term loan in the original principal amount of \$180,000.00, and to execute and deliver such other documents, instruments, agreements and guarantees necessary and proper to consummate the transactions contemplated hereunder.

I further certify that the foregoing resolution has not been altered, amended, or rescinded but remains in full force and effect.

WITNESS the hand and the seal of said Corporation this ____ day of September 21, 2011.

THE HAMPSTEAD AREA WATER COMPANY, INC.



Christine Lewis Morse, SOLE SHAREHOLDER