

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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June 30, 2014



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

Re: DW 14-107 Hampstead Area Water Company, Inc.
Petition to Expand Franchise Area, Approval of Financing, Approval of
Acquisition of Assets and Approval of the Application of Existing
Permanent Rates

Dear Ms. Howland:

On April 18, 2014, Hampstead Area Water Company, Inc. (HAWC or the Company) filed a petition for approval to expand its franchise area within the Town of Newton in order to serve a proposed 35-unit expansion to an existing condominium development already served by HAWC known as Sargent Woods.¹ Staff has reviewed HAWC's filing, which included one round of discovery², and believes that HAWC has demonstrated that it possesses the requisite technical, managerial, financial, and legal capabilities to serve the proposed expansion of the Sargent Woods condominium development. Therefore, Staff recommends that the Commission approve HAWC's petition in this case. Following is a more detailed explanation of Staff's analysis.

HAWC requests authority from the Commission to: 1) expand its franchise area within the Town of Newton so as to include the proposed Sargent Woods Extension, 2) acquire certain assets in order to serve the proposed Sargent Woods Extension, 3) issue debt in the amount of \$35,000 in order to acquire these assets, and 4) charge the customers served within the Sargent Woods Extension its currently approved consolidated rates. HAWC's petition was accompanied by various schedules as well as other documents including the pre-filed testimonies of Harold Morse, President of HAWC, and John Sullivan, Controller of Lewis Builders, Inc.

¹ The Commission issued Order No. 24,884 on August 8, 2008 in Docket DW 07-130 granting approval to HAWC to serve the original 80-unit development at Sargent Woods in the Town of Newton.

² A copy of HAWC's responses to Staff's Data Requests is attached to this correspondence.

HAWC is a public water utility which currently serves approximately 3,200 customers in a number of communities throughout southeastern New Hampshire. Sargent Woods, including the proposed extension, is a satellite system of HAWC. The owner of Sargent Woods is Centerview Hollow Land Company, LLC (CVH); an affiliate of HAWC. The developer of the Sargent Woods Extension is Lewis Builders Development, Inc. (LBDI); also an affiliate of HAWC.

On March 31, 2014, CVH conveyed a water rights and easement deed to HAWC. (See Exhibit 1 to HAWC's Filing.) On June 6, 2014, CVH, LBDI and HAWC entered into a three party contract whereby it was agreed that the water system assets for the Sargent Woods Extension would be sold to HAWC at a price of \$1,000 per residential unit "hook-up", or \$35,000. (See HAWC's response to Staff Data Request 1-2.) The assets purchased will primarily consist of transmission and distribution mains as well as services. Water meters will be purchased by HAWC directly from LBDI as the individual dwelling units are completed at an estimated total cost of \$12,250.

The total estimated cost of construction of the mains and services is \$143,400. That portion of the cost of construction which is over and above the \$35,000 purchase price will be considered contributed by CVH and as such, will be treated as Contributions in Aid of Construction (CIAC) by HAWC. In its response to Staff Data Request 1-4, HAWC indicated that construction on the condominium development has already commenced with an anticipated completion date of either late 2015 or early 2016. HAWC also stated that as yet no units have been sold but that initial occupancy of the development is anticipated during the summer of 2014.

In correspondence dated July 23, 2013 from the New Hampshire Department of Environmental Services (NHDES), final approval was granted relative to the expansion of the Sargent Woods water system. A copy of this letter is contained in HAWC's filing and identified as Exhibit 5.

In order to finance the purchase of the Sargent Woods Extension system assets, HAWC has executed a promissory note with LBDI in the amount of \$35,000. (See HAWC's response to Staff Data Request 1-3.) The terms of this note call for HAWC to make 240 monthly payments of principal and interest over a 20 year term. The interest rate of the note has been established as 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the calendar quarter preceding Commission approval of this financing. Subsequently, the interest rate on the note will be adjusted every third year on its anniversary date. If Commission approval is granted for this financing during the current calendar quarter, the initial interest rate of the note will be 5.50%.

HAWC is requesting that its current consolidated rate be applied to the proposed franchise expansion area. That rate was approved in Commission Order No. 25,519 (June 7, 2013) in docket DW 12-170 and consists of a \$10.00 customer charge as well as a \$5.02 per 100 cubic foot consumption charge, billed monthly.

On May 13, 2014, the Commission received correspondence from the Newton Board of Selectmen indicating that it had received notification of the proposed petition regarding the Sargent Woods Extension water system. No subsequent correspondence has been received from the Newton Board of Selectmen relative to this docket.

Staff has reviewed the filing submitted by HAWC and, as previously indicated, conducted one round of discovery with regard to the information contained in that filing. In prior Commission rulings approving other water system acquisitions and franchise expansions by HAWC, the Company has demonstrated that it possesses the requisite managerial, technical, financial, and legal expertise to own and operate small water systems. Based upon its review of the information presented in the instant docket, Staff continues to believe that HAWC possesses the requisite expertise to competently operate and maintain the proposed Sargent Woods Extension. In addition, Staff believes that the correspondence HAWC received from the NH DES dated July 23, 2013 satisfies the requirements of RSA 374:22, III regarding the suitability and availability of water to serve the Sargent Woods Extension. Thus, Staff recommends that the Commission approve HAWC's proposed franchise expansion within the Town of Newton as well as the proposed acquisition of the Sargent Woods Extension water system assets.

Staff also recommends that the Commission approve the associated request for financing in the amount of \$35,000. Staff believes that the proposed purchase price was derived in conformity with the terms of the stipulation approved by the Commission in *Hampstead Area Water Company, Inc.*, Order No. 24,362 in Docket No. DW 02-128 (August 19, 2004).³ Staff believes that the proposed purchase price is reasonable, especially in light of the estimated construction cost for the system. Staff also believes that the terms of the proposed financing is reasonable as well as in the public good and is consistent with past financings approved for HAWC by the Commission.

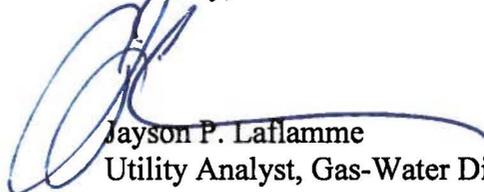
³ Commission Order No. 24,362 approved specific methodologies relative to various system development scenarios to be employed by HAWC to record the value of water system assets it acquires and which are constructed by its affiliate, LBDI. Under the scenario relevant to the instant proceeding, HAWC will acquire the Sargent Woods Extension water system assets constructed by LBDI at a cost equivalent to a fixed fee (in this case \$1,000) per each of the proposed 35 residential connections, or \$35,000. This amount will be recorded by HAWC as rate base. The remainder of LBDI's actual cost of construction over and above the \$35,000 purchase price will be considered contributed plant by CVH and as such will be recorded by HAWC as CIAC.

June 30, 2014

Finally, Staff recommends that the Commission approve the application of HAWC's current consolidated rate to the customers that will be served within the Sargent Woods Extension. The Commission has previously ruled that these rates are just and reasonable for HAWC's two core systems as well as its satellite systems, including the original Sargent Woods development. Staff believes that it is appropriate to charge the customers served within the Sargent Woods Extension HAWC's consolidated rate as well.

In conclusion, Staff recommends that the Commission approve all aspects of HAWC's petition by the issuance of an Order *nisi*. If you have any further questions regarding this matter, please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,



Jayson P. Laflamme
Utility Analyst, Gas-Water Division

Attachment: Discovery Responses

cc: Service List

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.

Executive.Director@puc.nh.gov

amanda.noonan@puc.nh.gov

bob@lewisbuilders.com

marcia.brown@puc.nh.gov

mark.naylor@puc.nh.gov

ocalitigation@oca.nh.gov

steve.frink@puc.nh.gov

Docket #: 14-107-1 Printed: June 30, 2014

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.



HAMPSTEAD AREA
WATER COMPANY, INC

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936
www.hampsteadwater.com

June 6, 2014

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

RE: DW-14-107
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 email copy has also been sent this day to OCA and PUC staff on the Service List.

Feel free to call me if you have any questions.

Very truly yours,

Robert C. Levine
General Counsel

Enclosures
RCL/ja

cc: HAWC Mgrs.
Stephen St. Cyr
NH PUC Service List

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14

Date of Response: 06-06-14

Staff 1-1

Witness: Robert C. Levine

On Exhibit 4, the franchise description, it appears that the 100 foot measure after the 440.31 foot measure is missing. If there are errors in the written description, do you agree that the description as displayed on the franchise plan is the franchise boundary HAWC seeks?

Response:

The 100 foot measure is the distance of the limit of the easement as shown on the plan. The distance from the point of beginning to the next call is 440.31 feet. The franchise description as displayed on the plan is the franchise boundary that HAWC is seeking in this docket.

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14

Date of Response: 06-06-14

Staff 1-2

Witness: Robert C. Levine

Please provide a signed copy of Exhibit 6, Contract to Construct, Purchase Water Utility Assets & Provide Domestic Water Service.

Response:

See attached.

EXHIBIT 6
SARGENT WOODS EXTENSION

**CONTRACT TO CONSTRUCT, PURCHASE WATER UTILITY
ASSETS & PROVIDE DOMESTIC WATER SERVICE**

Agreement made as of ~~APRIL~~ ^{June} 6, 2014, by and between Hampstead Area Water Company, Inc. (HAWC) of 54 Sawyer Avenue, Atkinson, New Hampshire 03811, and Lewis Builders Development, Inc. and Centerview Hollow Land Company, LLC, all of 54 Sawyer Avenue, Atkinson, New Hampshire, as their interests appear (collectively Developer).

WHEREAS, Developer is constructing an expansion of a residential development containing a total of Thirty Five (35) dwelling units, to be part of the Sargent Woods Condominium, located off Smith Corner Road, in Newton, New Hampshire (Development) and has caused as part of such construction the installation of a domestic, potable water system to serve the Development; and whereas HAWC has, or is willing to apply to the New Hampshire Public Utilities Commission for a franchise to supply domestic potable water to the Development; and

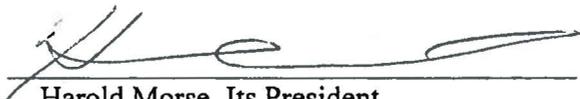
WHEREAS, HAWC is willing to purchase and operate and the Developer is willing to sell to HAWC the in-ground water system assets which serves the Development (the System), all subject to the approval of the New Hampshire Public Utilities Commission (PUC),

NOW THEREFORE, the parties agree as follows:

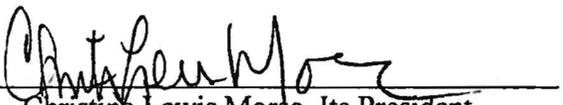
1. Developer hereby sells, conveys and assigns to HAWC all of the assets which comprise and constitute the System which are set forth on the Bill of Sale (Exhibit 8) attached hereto.
2. The total purchase price for all of the assets of the System shall be \$1,000.00 per residential unit hook-up to the System occurring within the Development or such other hook-up fee as shall be allowed by the PUC, regardless of the actual cost of the assets which constitute the System as set forth on Exhibit 8.
3. In addition to the purchase price set forth in paragraph 2 above, the balance of the actual cost of the assets comprising the System as set forth on Exhibit 8 shall be contributed without additional charge by Developer to HAWC as Contribution In Aid of Construction (CAIC).
4. HAWC shall execute and deliver to Developer with this agreement a Promissory Note (Exhibit 9) in the sum of Thirty Five Thousand and 00/100th (\$35,000.00) Dollars and shall undertake the following actions:

- a. Permanently undertake to operate, maintain, repair and replace as necessary the System and its assets and shall supply reasonable quantities of domestic potable water to each and every residential unit in the Development, pursuant to its obligations and responsibilities as a public utility regulated company.
 - b. Timely apply to the PUC for authority to obtain a franchise area which will include the System, to operate and acquire the assets constituting the System and for application of existing rates for the proposed franchise area.
5. Developer has conveyed to HAWC an easement and right of access for HAWC to (a) drill wells, use, build, maintain, repair, replace and operate the System and to take and use and sell the water from any wells within the Development which are part of the System, (b) lay pipes, mains, valves and lines and install pumps, pump houses and other equipment which constitute the System within the Development and to repair, maintain and replace the same anywhere within the Development, with access and egress to the system for such purposes, all in accordance with the terms as set forth and limited in the Water Rights Deed and Easement attached hereto as Exhibit 1.
6. HAWC agrees to charge and bill the owners of the residential units within the Development who are connected to the System in accordance with and pursuant to tariffs as approved by the PUC.

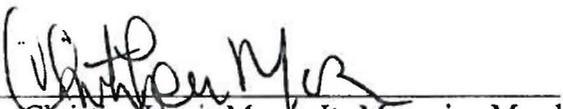
HAMPSTEAD AREA WATER COMPANY, INC.

By: 
Harold Morse, Its President

LEWIS BUILDERS DEVELOPMENT, INC.

By: 
Christine Lewis Morse, Its President

CENTERVIEW HOLLOW LAND COMPANY, LLC.

By: 
Christine Lewis Morse, Its Managing Member

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14

Date of Response: 06-06-14

Staff 1-3

Witness: John Sullivan

Re: Exhibit 9

- a) Please explain why the heading of the promissory note indicates “Black Rocks Village”.
- b) Please confirm that the lender on the promissory note should be LBDI and not Centerview Hollow Land Company, LLC.

Response:

- a) That is a typo. See attached corrected note.
- b) Yes. LBDI is the correct party on the note.

SARGENT WOODS EXTENSION
PROMISSORY NOTE

\$35,000.00

Dated:

Hampstead Area Water Company, Inc. (HAWC) promises to pay to Lewis Builders Development, Inc., (LBDI), the sum of Thirty Five Thousand and 00/100th Dollars (\$35,000.00) ("Principal"), plus interest as follows:

Amortized over a term of twenty (20) years, with interest on the unpaid balance in the amount of Two and One-Quarter percent (2¼ %), plus the Prime Rate, as published in the Wall Street Journal on the last business day of the quarter prior to PUC approval and then adjusted on that anniversary date, every three years thereafter This Note is payable in Two Hundred and Forty (240) equal monthly installments, until the twentieth anniversary of this note, when all outstanding principal and interest shall be due and payable.

HAWC may prepay this note at any time.

HAMPSTEAD AREA WATER COMPANY, INC.

Judith S. Aronson
Witness

By: [Signature]
Harold Morse, President

The payment of this note is subject to the approval of the New Hampshire Public Utilities Commission.

ACCEPTED AND ACKNOWLEDGED

Lewis Builders Development, Inc.

[Signature]
Christine Lewis Morse, President

Dated: 6/6/14

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14 **Date of Response: 06-06-14**
Staff 1-4 **Witness: Robert C. Levine as to 1-4 a) and John Sullivan 1-4 b) – e)**

Re: Exhibit 12:

- a) Mr. Morse's testimony appears to be cutoff mid-sentence at the bottom of page 1. Please provide the missing portion of Mr. Morse's testimony.
- b) When does the Company anticipate that construction of the condominium development and water system will commence?
- c) What is the anticipated completion date for the condominium development and water system?
- d) Have any of the condominium units been sold? If yes, please indicate the number sold?
- e) What is the anticipated date of initial occupancy of the condominium development?

Response:

- a) See attached page 1 of Mr. Morse's testimony.
- b) Construction has already commenced.
- c) Late 2015 or early 2016.
- d) No.
- e) Summer 2014.

THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY, INC

DW 14-

**PETITION TO EXPAND FRANCHISE AREA, APPROVAL OF FINANCING,
APPROVAL ACQUISITION OF ASSETS AND APPROVAL OF APPLICATION OF
EXISTING PERMANENT RATES**

PRE-FILED TESTIMONY OF HAROLD MORSE

Q. Please state your name, address and position with Hampstead Area Water Company, Inc.

A. My name is Harold Morse, of 54 Sawyer Avenue, Atkinson, NH and I am the President of Hampstead Area Water Company, Inc., (HAWC).

Q. Describe the overall history of HAWC.

A. HAWC is presently franchised in most areas of Hampstead and Atkinson, New Hampshire, and has franchised satellite systems in various towns in Rockingham County as per the Schedule A attached to the Petition.

Q. Why are you requesting a franchise expansion in Newton, New Hampshire?

A. Centerview Hollow Land Company, LLC (CVH) and Lewis Builders Development, Inc. (LBDI) are constructing an extension of the existing water system at the Sargent Woods Condominium Development to provide water service to an additional 35 units that will become part of this development. Sargent Woods, originally an 80 unit condominium development, is located off Smith Corner Road in Newton, New Hampshire. CVH and LBDI are related companies to HAWC. The expansion of the franchise area will be limited to the Tax Map Lot 7-5-4, which will be merged into the existing Sargent Woods condominium.

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14

Date of Response: 06-06-14

Staff 1-5

Witness: John Sullivan

Re: Exhibits 10, 12 and 13:

- a) Will the purchase and installation of meters and services be occurring prior to the sale of the water system from the Developer to HAWC or will these be occurring subsequent to the sale of the water system to HAWC as individual units within the condominium development are sold and occupied? Please explain.
- b) Will the allocation of CIAC extend to meters and services? Please explain.
- c) Will HAWC be purchasing and installing the meters and services directly? Please explain.

Response:

- a) The purchase and installation of meters and services will be occurring as the units are completed.
- b) As in the past HAWC will purchase and own the meters in full. The cost of services will be allocated as CIAC.
- c) HAWC will be purchasing the meters. LBDI will be installing the meters and purchasing and installing the services.

**DW 14-107
HAMPSTEAD AREA WATER COMPANY, INC.
SARGENT WOODS EXTENSION
STAFF DATA REQUESTS – SET 1**

ANSWERS

Date request received: 05-29-14

Date of Response: 06-06-14

Staff 1-6

Witness: Robert C. Levine

Has the Company received a response from the Town of Newton Selectmen to its letter to them dated April 16, 2014? If yes, please provide a copy of this response.

Response:

No, but we do see that the Town did send a response to the PUC dated May 6, 2014 and docketed on May 18, 2014. See attached.

REC'D 13 MAY 14 AM 11:00

TOWN OF NEWTON

Deborah Howland, Executive Director
Public Utilities Commission
21 Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

RE: Petition of Hampstead Area Water Company, Inc. to extend water system in
Newton to service at the Sargent Woods development expansion, in Newton, NH.

Dear Ms. Howland:

Please be advised that the Newton Selectmen have been notified of the proposed petition to acquire and operate to extend the water system in Newton to serve the Sargent Woods development expansion, located in Newton, New Hampshire, which will consist of approximately 35 additional condominium units.

Our address is 2 Town Hall Road, P.O. Box 378, Newton, New Hampshire, 038580, and our telephone number is 603-382-4405.

Dated: 05-06-14

Newton Board of Selectmen

By: Robert J. Roman

Title: Chairman