

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 10-241

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Acquisition of Assets and for Approval of Financing – Settlers Ridge

Order *Nisi* Approving Petition

ORDER NO. 25,195

February 18, 2011

I. BACKGROUND

On September 10, 2010, Hampstead Area Water Company, Inc. (HAWC) filed a petition pursuant to RSA 369:1 seeking authority to borrow \$536,505 in long-term debt from its affiliate, Lewis Builders Development, Inc. (LBDI). HAWC intends to use the proceeds of the financing to acquire four wells at its Settlers Ridge water system and construct a pump house and other equipment in order to provide service from these new wells. In support of its petition, HAWC filed testimony, schedules, and a proposed loan document.

The four new wells were constructed as a result of HAWC's recent hydrology study and large groundwater withdrawal permit approval process, which were the subjects of Commission Docket Nos. DW 06-104 and DW 10-134.¹ In its current filing, HAWC submitted a cost figure of \$103,605 for the construction of the new wells. This figure was increased by \$14,780 to

¹ Docket DW 06-104 was HAWC's original request for financing approval to acquire funds from LBDI for the hydrology study and to apply for a large groundwater withdrawal permit within HAWC's Atkinson core system. The Commission approved this request. *See Hampstead Area Water Company, Inc.*, Order No. 24,728, 92 NH PUC 30 (2007). In Docket DW 10-134, HAWC requested an increase in the financing necessary to complete the study and permit process as well as requested rate recovery for the total cost of the project. The Commission approved these requests. *See Hampstead Area Water Company, Inc.*, Order No. 25,159 (October 25, 2010). It is the financing of new wells and a pump house at HAWC's Settlers Ridge system, resulting from the study and permit process, that are the subject of the instant docket.

\$118,385 after Audit Staff discovered an additional \$14,780 in costs that HAWC had overlooked. HAWC stated that the construction of the pump house and other equipment will not be completed until Commission approval is granted. HAWC estimated that the cost of construction would be approximately \$432,900. In discovery, HAWC stated that a significant portion of the cost estimate was put out to bid. The cost for the construction project, as adjusted by Audit Staff, and the associated financing totals \$551,285. As to the public interest of the project, HAWC stated that the improvements are part of its ongoing efforts towards water source planning and that they are necessary to enhance its service to customers by better ensuring a consistent and reliable supply of water.

The proposed promissory note with LBDI includes a twenty-year term and monthly payments of principal and interest at an annual rate equal to 2.25% above the prime rate, adjusted every three years. The initial interest rate of the note is anticipated to be 5.50%.

On December 29, 2010, Staff filed a letter recommending that the Commission approve HAWC's financing request at the revised amount of \$551,285. Staff stated that the costs of the four wells were subject to an audit. Staff stated that it had also conducted discovery. Staff's final audit report and HAWC's discovery responses were attached to Staff's letter. Staff stated that it concurred with the necessity of the proposed assets as well as the proposed terms of the associated financing. Staff stated the financing terms were favorable and would result in a moderate anticipated impact on customer rates should HAWC seek to add these assets to its rate base. Staff indicated that the capital additions and financing, when added to current rate base, would increase HAWC's current revenue requirement by 4.66% and estimated it would result in roughly a \$2.20 per month increase in an average customer's bill. Finally, Staff expressed its

concern that the financing would change HAWC's debt-to-equity ratio to 88:12. Staff stated that this ratio indicated HAWC was highly leveraged. Staff recognized that mitigating factors existed, however, such as the close relationship between HAWC and its affiliates, and that its affiliates were willing and able to provide HAWC with financing for its capital needs. Staff suggested that HAWC consider adding new equity capital to the company in the future to bring more balance to the ratio.

II. COMMISSION ANALYSIS

Pursuant to the provisions of 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 involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As the Commission has previously noted, "certain financing related circumstances are routine, calling for more limited 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*, Docket No. DE 09-033, Order No. 25,050 (December 8, 2009) at 14.

HAWC seeks to borrow a total of \$551,285 from its affiliate, LBDI. The proceeds of the loan are for new wells, a pump house, and other equipment necessary to maintain the suitable operations of HAWC's water systems and the provision of safe and adequate service pursuant to RSA 374:1. The recent hydrology study and large groundwater withdrawal permit approval process were undertaken at the urging of the New Hampshire Department of Environmental

Services (NH DES). The Commission previously approved the financing for the hydrology study in Docket No. DW 10-134, Order No. 25,159 (October 25, 2010). The proceeds of the instant financing are intended to pay for investments recommended by the hydrology study. Furthermore, these capital improvements are of the type the Commission expects to be made routinely in the ordinary course of proper utility operation. Accordingly, we find that the proposed use of the financing in this case is for the public good. We note that a determination as to whether the costs to complete the projects were prudently incurred will take place when they are “used and useful” in the provision of utility service and HAWC seeks to place the assets in rate base.

The proposed borrowing is expected to have a moderate impact on ratepayers when HAWC seeks to add these assets to its rate base. Staff has indicated that the proposed capital additions and financing would increase HAWC’s revenue requirement by \$68,705, or 4.66%. Given the important nature of the capital projects to be undertaken with the requested funds and the favorable terms of the financing, we find that the financing is consistent with the public good and we will approve the amount and purpose of the financing. This approval is given on the condition that the final terms not differ substantially from those proposed in HAWC’s filing and amended by Audit Staff. If such terms vary significantly, we will require HAWC to seek additional Commission approval. Pursuant to RSA 369:2, we also authorize HAWC to grant a security interest in its real and personal property, if needed to secure the loan.

Lastly, we share Staff’s concerns relative to the highly leveraged position HAWC currently maintains. If allowed to continue indefinitely, such a position could affect the viability of the utility and could ultimately be detrimental to customers. Therefore, we direct HAWC to

consider measures that it can undertake to improve its current debt-to-equity ratio and to provide a report on its progress to the Commission no later than June 30, 2011.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority for HAWC to undertake the financing of up to \$551,285, upon the terms and conditions proposed in its petition, is hereby granted; and it is

FURTHER ORDERED, that HAWC shall cause a copy of this Order *Nisi* to be published once in those newspapers with circulation in those portions of the state where operations are conducted, such publication to be on or before February 28, 2011 and to be documented by affidavit filed with this office on or before March 21, 2011; and it is

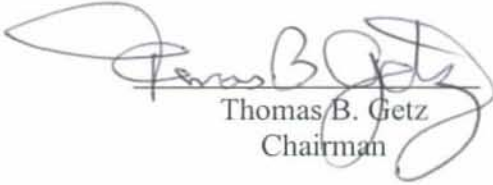
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than March 7, 2011 for the Commission's consideration; and it is

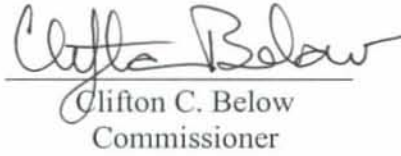
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 14, 2011; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective March 21, 2011, 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; and it is

FURTHER ORDERED, that HAWC shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transactions contemplated hereby.


By order of the Public Utilities Commission of New Hampshire this eighteenth day of
February, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

