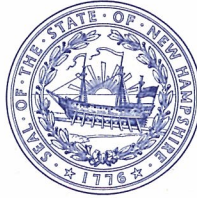


THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION
21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

Tel. (603) 271-2431

FAX (603) 271-3878

TDD Access: Relay NH
1-800-735-2964

Website:
www.puc.nh.gov

April 14, 2009

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



Re: DW 09-045, Aquarion Water Company of New Hampshire, Inc.
Petition for Approval of Increase in Short Term Debt Limit

Dear Ms. Howland:

On March 9, 2009, Aquarion Water Company of New Hampshire, Inc. (Aquarion) filed a petition for approval of an increase in its short term debt limit. Pursuant to N.H. Code of Admin. Rule 608.05, water utilities may not issue short term debt, if such debt exceeds 10% of its net fixed plant, without prior Commission approval pursuant to Puc 201.05. Included with Aquarion's petition is a copy of an unaudited financial statement covering the years 2007 and 2008. After review, Staff recommends approval of Aquarion's request, for a period of time ending no later than March 31, 2010.

In 2005, Aquarion refinanced a large portion of its short term debt by issuing General Mortgage Bonds. In Order No. 24,482, issued July 1, 2005, Aquarion was authorized to issue the bonds in an aggregate principal amount of \$5,900,000. At the same time, Aquarion received a capital contribution from its parent, Aquarion Company. These transactions reduced Aquarion's short term debt to approximately \$900,000. Since that time, however, Aquarion has borrowed funds on a short term basis from its parent via a pass through short term credit facility between Dresdner Bank and Aquarion Holdings.

According to the petition, Aquarion currently has approximately \$4,100,000 in outstanding short term debt, a level representing about 16% of its current net fixed plant. Aquarion states that the recent cause of this increase in short term debt is the cost of replacement of the Mill Road standpipe. Aquarion contends that a waiver of the limit in Puc 608.05, and approval of a short term debt limit of 20% of its net fixed plant, is

necessary to permit it to continue borrowing funds through the short term credit facility so that it might continue to fund ongoing capital improvements. Thus, Aquarion requests a waiver of the requirements of Puc 608.05, in accordance with Puc 201.05.

Staff has reviewed Aquarion's petition and has propounded data requests. The company's responses are attached to this letter. As Aquarion's petition did not indicate over what specific period of time it requests authority to exceed the short term debt limit, Staff inquired about this time period in a discovery request. Aquarion's response to Staff 1-1 indicates that Aquarion expects to obtain new long term financing "by 2010" and at that time would reduce its short term debt outstanding to a level below 10% of net fixed plant. Staff therefore recommends the Commission approve the requested increase in short term debt to a level no more than 20% of Aquarion's net fixed plant, with that authority terminating at the end of the first quarter of 2010. This should give the company ample time to arrange new long term debt financing.

In 2003, in Docket No. DW 03-152, Aquarion requested an increase in its short term debt limit when it had exceeded that limit. In its secretarial letter dated October 1, 2003 approving the request, the Commission cautioned Aquarion regarding exceeding the short term debt limit in the future. Now Aquarion, in its response to Staff 1-5, indicates that this instance is an oversight, and it pledges to more closely monitor its short term debt levels in the future. At this time Staff does not advocate a penalty for the company, but instead Staff recommends the Commission consider the inclusion of short term debt in Aquarion's capital structure in the current rate case, DW 08-098. This would be appropriate since Aquarion relies on short term debt regularly as a part of its capitalization.

In summary, Staff recommends approval of Aquarion's request for a waiver of the requirements of Puc 608.05, pursuant to Puc 201.05, such that Aquarion can issue short term debt up to 20% of its net fixed plant until March 31, 2010. Staff also recommends the Commission consider including short term debt in Aquarion's capital structure in the current rate case, DW 08-098.

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

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachments
cc: Service List

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 09-045

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: March 24, 2009
Request No.: Staff 1-1

Date of Response: April 3, 2009
Witness: L. Discepolo

REQUEST: The petition does not state a time period for the requested authority. Please indicate for what period of time into the future the company requests authority to exceed the 10% short term debt limit.

RESPONSE: Given the Company's size, it has continuously faced the difficulty of maintaining the short term debt limit of 10%. The challenge arises from two main factors: (1) the significant diseconomies of small issuances of debt, (i.e. high issuance costs push-up the overall cost of the borrowing on small issues), and (2) the nature of many water utility capital expenditure requirements, whereby a single project could cost more than \$1 million (e.g. \$1.5 million Mill Road tank project). For small companies like AWC-NH, that could represent close to the entire 10% short term debt limit.

We believe that the fundamental issue for the Company remains whether it has access to capital to fund its necessary infrastructure requirements, and whether that capital is available at a reasonable cost. AWC-NH is able to readily access short term debt through an intercompany borrowing arrangement. This arrangement is at cost for AWC-NH (no mark-up, or intercompany profit). This has assured that many critical capital projects remained on track over the course of the past 18 months, despite the credit crisis which has impacted the plans of many other companies. The short term rate is below the long term financing rate, making the short term debt rate more favorable.

Given the current economic climate and the instability of the debt markets, the Company believes it will be able to obtain long term debt financing by 2010 and at that time, would reduce its short term debt below the 10% level.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 09-045

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: March 24, 2009
Request No.: Staff 1-2

Date of Response: April 3, 2009
Witness: L. Discepolo

REQUEST: Please indicate when the company intends to reduce its short term debt limit back to the 10% level.

RESPONSE: Please see the Company's response to Staff 1-1.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 09-045

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: March 24, 2009
Request No.: Staff 1-3

Date of Response: April 3, 2009
Witness: L. Discepolo

REQUEST: Please indicate how the company will reduce the short term debt limit to the 10% level.

RESPONSE: See the Company's response to Staff 1-1. The Company anticipates refinancing its intercompany borrowings with third-party long term debt within the next two years, assuming that lower cost financing is available. The Company's hope is that the financial markets will stabilize within this period and long term financing can be obtained at reasonable interest rates.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 09-045

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: March 24, 2009
Request No.: Staff 1-4

Date of Response: April 3, 2009
Witness: L. Discepolo

REQUEST: Please indicate if the company anticipates any new long term debt issues in 2009 or 2010.

RESPONSE: Please see the Company's response to Staff 1-3.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 09-045

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: March 24, 2009
Request No.: Staff 1-5

Date of Response: April 3, 2009
Witness: L. Discepolo

REQUEST: Given that the company was cautioned in the secretarial letter dated October 1, 2003, in DW 03-152, regarding compliance with Puc 608.05, and receiving Commission approval prior to exceeding the short term debt limit, please indicate what circumstances exist such that the Commission should not penalize the company for this violation.

RESPONSE: The Company's exceedance of the 10% short term debt level was an oversight and is not an intentional disregard of the Commission's rules. The Company pledges to more closely monitor its short term debt levels on a going forward basis to ensure compliance with Puc 608.05. The Company continued to obtain low cost funds from its Parent through inter-company loans because it was the least cost alternative for its customers, particularly given the unprecedented economic environment and the tremendous volatility in the financial markets,. The Company does not believe that penalties are appropriate given that the Company's intention was to provide low cost funds to its customers and because the exceedance was not intentional. The Company believes that it would also be appropriate for the Commission to consider the Company's poor earnings results combined with its efforts to keep debt costs low in determining that a penalty is not warranted in this case.

SARAH KNOWLTON
MCLANE GRAF RAULERSON & MIDD
PO BOX 459
PORTSMOUTH NH 03802-0459

Docket #: 09-045 Printed: April 14, 2009

FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),
WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:
DEBRA A HOWLAND
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CONCORD NH 03301-2429

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BULK MATERIALS:

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

MARK NAYLOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

MARCIA THUNBERG
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

AMANDA NOONAN
CONSUMER AFFAIRS DIRECTOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429