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November 25, 2009

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

Re: DW 09-193, Aquarion Water Company of New Hampshire, Inc. Petition for Approval to Issue Promissory Note

Dear Ms. Howland:

On October 9, 2009, Aquarion Water Company of New Hampshire, Inc. (Aquarion) filed a petition for approval to issue a promissory note in an amount up to $4,000,000. The $4,000,000 would be used entirely to pay down short-term debt. Aquarion had sought and received Commission approval to exceed its 10% short-term debt limit in Commission Order No. 24,959 in Docket No. DW 09-045, but that authority was extended only to March 31, 2010. Aquarion, therefore, was required to seek long term debt before then in order to reduce its short-term debt below the 10% limit. After review of the instant petition to borrow $4,000,000 from an affiliate on a five year term basis, Staff filed a letter on November 10, 2009 recommending approval of Aquarion's petition.

On November 16, 2009 the Office of the Consumer Advocate filed a letter with the Commission asking that the Commission seek additional information with respect to the proposed use of the funds to be acquired. OCA averred that the company's petition, together with the Staff's recommendation letter, do not provide adequate detail as to the proposed use of the funds. While OCA acknowledges that Aquarion's petition indicates that the proposed use of the funds is to repay short-term debt, OCA asks that the Commission examine the uses of the short-term debt that is being replaced with long-term debt. OCA indicates that Aquarion cited only one specific capital project, the Mill Road standpipe, which cost about $1.5 million. Beyond that, the Commission lacks sufficient information for the use of the balance of the funds. While the company indicated the balance of the funds was used for capital improvements, OCA believes this explanation is insufficient and requests the Commission seek more information on the uses of the short-term funds being refinanced in the instant docket.

Staff believes the Commission has adequate information on which to base a decision. Aquarion uses short-term debt like many utilities do, in order to supplement its operating cash flows to fund capital improvements. Aquarion has added about $5.5 million in new utility plant in the three years ending December 31, 2008, an average for those three years of just over $1.8 million annually. Typically, a utility will seek new long term debt (or new equity) on a periodic basis in order to retire the short-term debt accumulated, as well as to establish permanent capital which matches the fixed assets added to rate base. Since the cash flows of a utility, however, may not always match its need to pay for operation and maintenance expenses in addition to its ongoing capital construction, depending partly on current operating results, there simply cannot be a direct match between the short-term debt on the books of a utility and its current capital investments. In other words, it cannot always be said that any specific funds (such as the short-term debt to be retired in the instant docket) were applied dollar-for-dollar to any specific use. In addition, it is Staff's belief that, while the *Easton* standard provides a general guideline for review of proposed financings, there are other tools at hand for the Commission to utilize in evaluating the prudency of the use of funds for capital spending.[1] Specifically in a rate case the Commission evaluates not only the capital improvements completed since the utility's last case, it also evaluates the overall capital structure of the utility for reasonableness not only in terms of debt-equity mix but whether short-term debt should be considered as a regular source of capital and included in the cost weighting.

In summary, Staff believes the Commission has an adequate basis of information in order to consider Aquarion's request in this docket. Aquarion is simply reducing its level of short-term debt, generated by a combination of capital spending and normal operations, and replacing it with long-term debt. This action is not only prudent utility management but is also in direct response to a directive of the Commission in DW 09-045.

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

Sincerely,

Mark A. Naylor

Mark A. Naylor
Director, Gas & Water Division

cc: Service List

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[1] Many capital improvements are put into service without any prior notice to, or approval of, the Commission. If a proposed capital project does not trigger the filing of a Form E-22, is not financed directly by a new debt issue, and is simply funded out of a combination of short-term debt and normal operating cash flows, there is no prior notice to the Commission.

STEVEN V CAMERINO
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