

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**DOCKET NO. DW 12-\_\_\_\_\_**

**RE: AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.**

**Verified Petition for Authority to Issue \$5,000,000 General Mortgage Bond**

Aquarion Water Company of New Hampshire, Inc. (“Aquarion” or the “Company”), hereby petitions the New Hampshire Public Utilities Commission (the “Commission”) for authority, pursuant to RSA 369:1, RSA 369:2, and N.H. Code of Administrative Rule Puc 609.03, to issue up to \$5,000,000 in long-term debt on a secured basis. In support of this petition, the Company states as follows:

1. Aquarion is a New Hampshire corporation and public utility authorized by the Commission to provide water service to customers in Hampton, North Hampton, and Rye, New Hampshire.

2. Pursuant to Order No. 25,072, the Company was authorized to borrow up to \$4,000,000 in long-term debt from its parent company, Aquarion Company, Inc., under a five-year term, unsecured promissory note (the “Note”) that matures on March 1, 2015. *See Aquarion Water Company of New Hampshire, Inc.*, Docket No. DW 09-193, Order No. 25,072 (February 1, 2010). The fixed interest rate under this Note is 4.62% per annum.

3. The Company has been able to obtain new long-term debt financing on more favorable terms and is planning to refinance the Note and also obtain additional financing to fund certain on-going and planned capital improvements to its facilities. Therefore, the Company requests Commission approval to issue a General Mortgage Bond (the “Bond”) in the aggregate principal amount of up to \$5,000,000 to CoBank, ACB (“CoBank”). The Bond will have a term

of ten years and a fixed interest rate (or coupon rate) of 4.45% per annum. It will be secured by a mortgage on the Company's real property located in Hampton, North Hampton, and Rye, New Hampshire, and the Company's stock in CoBank having a value of \$1,000, which the Company is required to purchase upfront at the Bond closing. Granting these security interests is a condition of the Company obtaining the Bond financing.

4. The proposed Bond financing is consistent with the public good. It will allow the Company to refinance the \$4,000,000 Note for an additional seven years on more favorable terms, which will provide longer term stability to the Company's debt profile, and to obtain additional debt capital of \$1,000,000 to fund the Company's capital expenditure program under the same favorable terms. These capital improvements will include projects previously approved by the Commission, including customer meter replacements and main extensions along Route 101 and Ocean Boulevard as documented in Docket No. DW 11-238. *See Aquarion Water Company Petition for Approval of Its 2012 WICA and Proposed Projects*, Docket No. DW 11-238, Order No. 25,311 (December 30, 2011). The issuance of the Bond is necessary to finance the Company's capital requirements and will further benefit Aquarion customers by reducing the Company's cost of long-term debt. The 4.45% interest rate on the Bond is 17 basis points below the 4.62% interest rate under the Note that will be refinanced. As shown on **Exhibit 1** (*Pro Forma Embedded Cost of Long-Term Debt to Reflect Issuance of \$5,000,000 Bond*) to this petition, the Company expects to realize a 21 basis point decrease in its cost of long-term debt as a result of the proposed Bond financing -- from the 6.26% approved in the Company's last rate case to 6.05%. *See Aquarion Water Company of New Hampshire Petition for Rate Increase*, Docket No. DW 08-098, Order No. 25,019 (September 25, 2009). Accordingly, the proposed

financing will enable the Company to continue to provide safe water service to its customers at a reasonable cost.

5. Entering into the proposed loan arrangement with CoBank will also offer potential additional benefits to the Company and its customers. CoBank is a federally chartered bank and a Government Sponsored Enterprise (“GSE”) owned by its customers. As a GSE, CoBank issues debt with the implicit full faith and credit of the U.S. Government and enjoys lower borrowing costs, which are passed on to its borrowers. In addition, CoBank is organized as a cooperative -- i.e., it is owned and controlled by its borrowers -- and provides a return through “patronage payments” to its borrowers based on the net margins after payment of preferred stock dividends and certain deductions. Each year, CoBank targets a refund amount to return (in the subsequent year) to its borrowers based on the annual average accruing loan volume. Refunds received from CoBank would in turn be recognized and benefit Aquarion customers through the regular ratemaking process in future rate cases.

6. The issuance of the proposed Bond is also consistent with the Company’s existing debt covenants and restrictions. The Company’s Indenture of Mortgage dated as of May 1, 1968 with U.S. Bank, N.A., as successor trustee (as amended and supplemented, the “Indenture”),<sup>1</sup> provides that the Company may not issue new bonds under the Indenture unless the aggregate principal amount of those bonds, when added to the principal amount of all other bonds outstanding under the Indenture and the principal amount of other outstanding long-term debt, does not exceed 65% of the Company’s total capitalization. As illustrated in Exhibit 6 (described below) to this petition, after taking the Bond financing into consideration, the Company’s long-term debt/total capitalization ratio is expected to be 60.6%, which is under the 65% limit in the Indenture.

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<sup>1</sup> A copy of the Indenture is on file with the Commission.

7. Pursuant to the supplemental indentures for the Company's outstanding general mortgage bonds, the Company must obtain the consent of certain bond holders to issue additional bonds under the Indenture if the Company's net income does not equal at least 1.5 times the aggregate interest charges on all of the Company's long-term debt outstanding immediately after the new bonds are issued. As illustrated in Exhibit 4 (described below) to this petition, the Company expects a ratio of 1.83 after taking the Bond financing into consideration, which will satisfy the 1.5 ratio requirement.

8. Pursuant to Puc 609.03, the Company submits the following additional exhibits in support of its petition.

- **Exhibit 2**, *Estimated Costs to Reflect Issuance of \$5,000,000 Bond*, sets forth the estimated costs of the proposed Bond financing, which the Company expects will total approximately \$70,500. These costs include (a) the Company's legal fees and expenses related to negotiating and documenting the Bond financing and associated with this proceeding, (b) CoBank's legal fees and expenses arising from the Bond transaction, and (c) a loan origination fee in the amount of \$12,500, equal to 0.25% of the Bond -- which are all customary financing costs in transactions of this type. The estimated fees and expenses in Exhibit 2 are reasonable based on similar financing transactions undertaken by the Company's affiliated regulated utilities, and the Company will be amortizing them ratably over the ten-year term of the Bond.
- **Exhibit 3**, *Balance Sheet as of December 31, 2011 Actual and Pro Forma to Reflect Issuance of \$5,000,000 Bond*, reflects the Company's balance sheet as of

December 31, 2011, adjusted to reflect the effect of the refinanced Note, the proposed Bond issuance, and the estimated financing costs. This exhibit shows what the effect would have been on the Company's balance sheet on December 31, 2011 if the proposed refinancing and Bond transaction had been completed as of that date.

- **Exhibit 4, *Income Statement for the Twelve Months Ended December 31, 2011 Actual and Pro Forma to Reflect Issuance of \$5,000,000 Bond***, reflects the Company's income statement for the year ended December 31, 2011, adjusted to reflect the pro forma impact on interest expense and its related income tax effect associated with the redemption of the Note, and the amortization of the proposed Bond issuance on the Company's income for the recent trailing twelve-month period ending on that date.
- **Exhibit 5, *Journal Entries to Reflect the Issuance Of \$5,000,000 Bond***, records the new financing costs, adjusts interest expense, and reflects the after tax effect of the combined transactions resulting in a decrease to retained earnings of \$26,613 as shown in Exhibit 3 and Exhibit 4.
- **Exhibit 6, *Statement of Capitalization, Actual and Pro Forma to Reflect Issuance of \$5,000,000 Bond***, shows a statement of capitalization ratios after giving effect to the proposed financing. As of December 31, 2011, the total capital employed at the Company was \$21,965,301. This amount is comprised of \$9,063,001 of

common equity, \$2,300 of preferred stock, and \$12,900,000 of long-term debt.

The adjustments shown in this exhibit result in a change in the percentage of total debt to total capitalization from 58.7% to 60.6% on a pro forma basis.

9. CoBank's commitment to purchase the Bond is conditioned upon closing on the Bond financing no later than July 6, 2012. Accordingly, the Company requests that the Commission issue an order with an effective date on or before June 6, 2012 to provide sufficient time for the thirty-day statutory rehearing period to expire after the proposed effective date. Specifically, if the Commission determines that an order nisi is the appropriate means by which to authorize the proposed transaction, the Company requests that, even if the order is issued prior to June 6, the date upon which the order is deemed to be effective in the absence of further Commission action should also be no later than June 6.

WHEREFORE, the Company respectfully requests that the Commission:

A. Issue an Order Nisi approving this petition and authorizing the Company to issue the Bond in the aggregate principal amount of \$5,000,000 to CoBank as set forth in this petition and related exhibits; and

B. Grant such other relief as may be consistent with the public interest.

Respectfully submitted,

AQUARION WATER COMPANY OF NEW  
HAMPSHIRE, INC.

By its Attorneys,

McLANE, GRAF, RAULERSON & MIDDLETON,  
PROFESSIONAL ASSOCIATION



April 17, 2012

By: \_\_\_\_\_

Steven V. Camerino, Esq.

Jinjue Pak, Esq.

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Certificate of Service

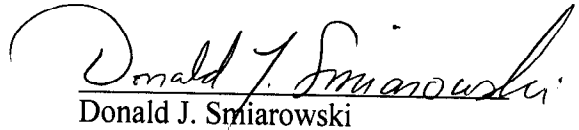
I, Jinjue Pak, hereby certify that a copy of the foregoing Verified Petition and all related exhibits have been forwarded this 17th day of April, 2012 to Rorie E.P. Hollenberg, Esq., Acting Consumer Advocate.



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Jinjue Pak

I, Donald J. Smiarowski, Manager, Treasury & Risk, for Aquarion Water Company of Connecticut, being first duly sworn, hereby depose and say that I have read the foregoing Verified Petition and all related exhibits, and the facts alleged therein are true to the best of my knowledge and belief.

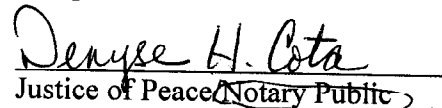
Dated: April 17, 2012

  
Donald J. Smiarowski

STATE OF Connecticut  
COUNTY OF Fairfield

Sworn to and subscribed before me this 17<sup>th</sup> day of April, 2012.

Dated: April 17, 2012

  
Justice of Peace ~~Notary Public~~

My commission expires: 3/31/2016

Denyse H. Cota  
A Notary Public of Connecticut  
My Commission Expires March 31, 2016

