

# HAMPSTEAD AREA WATER COMPANY, INC

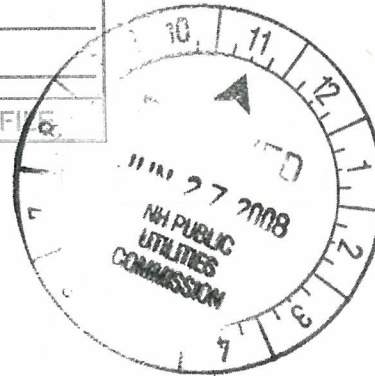
DW08-088

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936  
www.hampsteadwater.com

June 26, 2008

ORIGINAL	
N.H.P.U.C. Case No.	DW08-088
Exhibit No.	#1
Witness	Panel 1
DO NOT REMOVE FROM FILE	



Ms. Debra Howland  
Executive Director & Secretary  
NH PUC  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

RE: Petition for Authority To Borrow Long Term Debt, To Construct Water System Interconnection, Approval To Extend Franchise Area, and for Step Rate Increase.

Dear Ms. Howland:

Please find enclosed our original Petition as referenced above. We have included seven copies and a pdf copy of all documents on computer disk.

If you have any questions, please do not hesitate to contact me at 603-362-5333 ext 3019.

Very truly yours,

Robert C. Levine  
General Counsel

RCL/ja  
enclosures

CC: Town of Hampstead Board of Selectmen  
Town of Atkinson Board of Selectmen  
HAWC  
Steven St. Cyr

**STATE OF NEW HAMPSHIRE**  
**PUBLIC UTILITIES COMMISSION**  
**RE: HAMPSTEAD AREA WATER COMPANY, INC.**

DW-08-

**PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT,**  
**TO CONSTRUCT WATER SYSTEM INTERCONNECTION,**  
**APPROVAL TO EXTEND FRANCHISE AREA, AND FOR STEP RATE INCREASE**

Hampstead Area Water Company (HAWC) hereby petitions the Public Utilities Commission (the Commission) for authority, pursuant to RSA §369, to borrow One Million One Hundred Thousand Eighty Hundred Eighty Five and 00/100<sup>th</sup> (\$1,100,885.00) Dollars in long term debt from the Drinking Water State Revolving Fund (SRF), to extend its franchise area and, pursuant to RSA §378:3, for authority to increase its rates to a level that will enable the Company to pay the debt service on such financing and earn a reasonable rate of return on its invested capital. The Company seeks expedited approval of this Petition in order to qualify for low-interest financing which is available for a limited time period. In support of its requests, the Company states as follows:

- 1) HAWC is presently franchised in most areas of Hampstead and Atkinson, New Hampshire, and has franchised satellite systems in various towns in Rockingham County (see Schedule A, attached). HAWC is a New Hampshire corporation, authorized by this Commission to produce and distribute water within the Company's authorized franchise areas throughout southeastern New Hampshire.
- 2) The proposed financing would fund the interconnection of HAWC'S two core systems,

the Atkinson Core System and the Hampstead Core System. This interconnection would be in the best interest for the Company in terms of system operation and resource planning and has the support of the Department of Environmental Services.

- 3) The Company's two core systems extend over most of Hampstead and Atkinson. The proposed franchise area would extend into the area between the two existing core franchise areas. (See Exhibit 1, the Franchise Plan and Exhibit 2, the Franchise Description).
- 4) The Company plans to borrow \$1,100,885.00 from the SRF for the construction of the interconnection. This contemplates the installation of approximately 15,000 feet of pipe along Route 121 between Hampstead and Atkinson, New Hampshire.
- 5) The specific additions of new plant amounting to \$1,100,885.00 are attached as Exhibit 3.
- 6) The State of New Hampshire has preliminarily indicated that it would approve HAWC's request for financing (see SPS-1) subject to various terms and conditions. Generally, the terms and conditions are as follows:
  - a) The borrowing will amount to \$1,100,885.00.
  - b) The loan will mature 20 years from the date of closing.
  - c) The interest rate is currently 3.488%.
  - d) The payment of principal and interest based on a 20-year amortization will be due monthly beginning 30 days from the date of closing.
- 7) In order to be able to service this additional debt, the Company requires an increase in revenue of \$85,340, which would require an increase in its existing rates. Based on the projected costs, the Company anticipates an increase of \$.32 per 100 cu. ft. to the

consumption charge.

- 8) The State of New Hampshire's commitments are subject to receipt of Commission approval of the financing and the rate increase. The State of New Hampshire needs regulatory assurance that the Commission will authorize the rate increase to a level sufficient to pay the debt service.
- 9) The borrowings being proposed by the Company are in the public interest and consistent with the public good because it enhances the Company's ability to provide safe and reliable drinking water to its customers in its franchise areas at a reasonable cost. The interconnection will provide stability to the two core systems both as to water supply and emergency supply. The system improvements being proposed and the estimated cost of the improvements are reasonably necessary to provide such service to the Company's customers.
- 10) The planned route for this interconnection is from the Hampstead Core system Route 121 and following Route 121 to the Atkinson Core system. This project would be proceeding through a portion Atkinson that is not presently franchised by the Company. It is anticipated that homeowners along the route would be connecting to the system in the future and as well as providing service to parcels that are currently developed or that will be developed in the future. Accordingly, the Company is proposing to franchise that area which lies between Hampstead and Atkinson as shown on the Franchise Plan and described in the Franchise Description.
- 11) Simultaneously with this petition the Company is filing the direct testimony of Stephen P. St. Cyr (Exhibit 4) and related exhibits, as well as the direct testimony of Harold Morse,

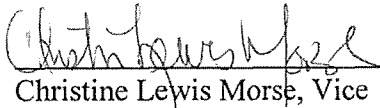
President of the Company (Exhibit 5). The direct testimony of Stephen P. St. Cyr describes the purpose of the financing, the proposed financing and the utilization of the funds from such financing. The exhibits include the State of New Hampshire's letter of commitment, the cost of the financing, the accounting and financial aspects of this borrowing. The direct testimony of Harold Morse describes the project, the reasons for the interconnection and the reasons for the franchise request.

WHEREFORE, Hampstead Area Water Company respectfully request that the Commission:

- A. Authorize the Company to borrow \$1,100,885.00 from the State of New Hampshire in accordance with the terms and conditions for the construction of new interconnection of the Hampstead Core System and the Atkinson Core System.
- B. Find that the execution of loan documents by the Company for purpose of consummating the aforementioned financing is consistent with the public good;
- C. Find that the use of the proceeds from the proposed financing and the amounts proposed to be spent by the Company for such improvements is prudent and consistent with the public interest;
- D. Authorize the Company to increase its rate by such amounts as to enable the Company to recover its investment and earn a reasonable rate of return on such investment;
- E. Approve an expansion of the franchise as requested and
- F. Grant such other and further relief as may be just and reasonable.

Dated:

Respectfully submitted,  
Hampstead Area Water Co., Inc.

  
Christine Lewis Morse, Vice  
President

**STATE OF NEW HAMPSHIRE**

**PUBLIC UTILITIES COMMISSION**

**RE: HAMPSTEAD AREA WATER COMPANY, INC.**

**DW-08-**

**PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT,  
TO CONSTRUCT WATER SYSTEM INTERCONNECTION,  
APPROVAL TO EXTEND FRANCHISE AREA, AND FOR STEP RATE  
INCREASE**

**EXHIBIT LIST**

1. Franchise Plan
2. Franchise Description
3. Financial Schedules
4. Testimony of Stephen P. St. Cyr
5. Testimony of Harold Morse

**EXHIBIT 2**

**FRANCHISE DESCRIPTION**

**ATKINSON-HAMPSTEAD INTERCONNECTION**

Beginning at a point which is the northern most corner of Tax Map 21, Lot 5 at the Town of Atkinson and Town of Hampstead town line, and thence turning and running southwesterly along the northwesterly boundary of Tax Map 21, Lot 5, Lot 4-1 and Lot 4, across Route 111, Tax Map 20 Lot 3, Lot 5 and Lot 6 to Kipkam Road, being the Atkinson-Hampstead town line; thence turning and running southwesterly a distance of approximately Five Thousand Six Hundred (5,600) feet to a point at the westernmost corner of Tax Map 11, Lot 17; thence turning and running southeasterly along the southwestern boundary of Tax Map 11. Lot 17, Lot 15, Lot 15-2 and 15-1 and across West Side Drive to a point at the northeastern most corner of Tax Map 11, Lot 12; thence turning and running northeasterly along southern sideline of West Side Drive and the northwestern boundaries of Tax Map 11, Lots 12, 11, 39, 24, 10, 9, 31, 30, 29, 28, 8, 7, 27, and a portion of Tax Map 12, Lot 3 to a point; thence turning and running northwesterly across West Side Drive and along the southwestern boundary of Tax Map 11, Lot 33 to a point at the southwestern most corner of Tax Map 11, Lot 32; thence turning and running northerly along the western boundary of Tax Map 17, Lot 94 to a point at the southern sideline of Oak Ridge Drive; thence turning and running easterly along the southern sideline of Oak Ridge Drive and the northern boundary of Tax Map 17, Lot 94 and Lot 27 to a point at the eastern most corner of Tax Map 17, Lot 27 and the northern sideline of West Side Drive; thence turning and running easterly across West



Side Drive to a point at the northeastern intersection of West Side Drive and Village Drive; thence turning and running northeasterly along the southern sideline of West Side Drive and a portion of the northwestern boundary of Tax Map 17, Lot 86 to a point opposite the southeastern corner of Tax Map 17, Lot 28; thence turning and running westerly across West Side Drive and then along the northern boundaries of Tax Map 17, Lots 28, 89, 90, 91, and a portion of Lot 92 to a point at the southeastern most corner of Tax Map 16, Lot 42; thence turning and running northerly along the eastern boundaries of Tax Map 16, Lots 42 and 41 feet to a point at the southern most corner of Tax Map 16, Lot 26; thence turning and running northeasterly along the southern boundary of Tax Map 16, Lot 26 to a point at the western most corner of Tax Map 17, Lot 30-25; thence turning and running easterly along the southern boundaries of Tax Map 17, Lot 30-25, 30-24, 30-22, 30-26, and 88 and across West Side Drive to a point at the western most corner of Tax Map 17, Lot 86 at the southern sideline of West Side Drive; thence turning and running northerly along the northeastern boundary of Tax Map 17, Lot 86 and the southern sideline of West Side Drive to a point at the southwestern most corner of Tax Map 17, Lot 85; thence turning and running easterly along the southern boundary of Tax Map 17, Lot 85 to a point at the northeastern corner of Tax Map 17, Lot 86; thence turning and running southerly along the eastern boundary of Tax Map 17, Lot 86 to a point at the southwestern most corner of Tax Map 17, Lot 3; thence turning and running easterly along the southern boundary of Tax Map 17, Lot 3 to a point at the southern most corner of Tax Map 17, Lot 3-1; thence turning and running easterly along the southeastern boundary of Tax Map 17, Lot 3-1 to a point at the eastern most corner of Tax Map 17, Lot 3-1 and the southwestern sideline of Main Street; thence turning and

running southeasterly along southwestern sideline of Main Street and the northeastern boundaries of Tax Map 17, Lot 2, and Lot 1, Tax Map 12, Lots 8-1, 19, 18, 8, 48, 47, and a portion of Tax Map 13, Lot 22 to a point opposite the southwestern corner of Tax Map 13, Lot 25; thence turning and running northerly across Main Street and along eastern sideline of Stone Pound Lane and the western boundaries of Tax Map 13, Lot 25 and Tax Map 18, Lot 105 and Lot 104 to a point at the end of Stone Pound Lane and the western most boundary of Tax Map 18, Lot 106; thence turning and running northerly along the western boundary of Tax Map 18, Lot 106 to a point at the northeastern most corner of Tax Map 18, Lot 103; thence turning and running northwesterly along the northern boundary of Tax Map 18, Lots 103 and 102 to a point at the southwestern most corner of Tax Map 18, Lot 2; thence turning and running northerly along the southwestern boundaries of Tax Map 18, Lots 2 and 1 to a point at the southwestern most corner of Tax Map 18, Lot 84; thence turning and running easterly along the southern boundaries of Tax Map 18, Lots 84, 85, 78, 50, 70 and 109 to a point Two Hundred (200) feet east of the eastern sideline of Maple Avenue; thence turning and running northerly along a course which is parallel and Two Hundred (200) feet east of the eastern sideline of Maple Avenue to a point at the southern boundary of the Towns of Atkinson and Hampstead, being the Atkinson-Hampstead town line; thence turning and running easterly along the town line of the Towns of Atkinson and Hampstead to the point of beginning.

Containing approximately 1,185.41 acres, more or less.

**F-1 BALANCE SHEET**  
**Assets and Other Debits**

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	2008 Lewis Financing Adjustments (d)	Adjusted Year End Balance (e)	2008 SRF Fin/Step Adjustments (f)	Adjusted Year End Balance (g)
	<b>UTILITY PLANT</b>					
1	Utility Plant (101-106)	\$ 10,790,925	\$ 165,330	\$ 10,956,255	\$ 1,078,885	\$ 12,035,140
2	Less: Accumulated Depr. and Amort. (108-110)	\$ 2,464,572	11,375	2,475,947	12,199	2,488,146
3	Net Plant	\$ 8,326,353	\$ 153,955	\$ 8,480,308	\$ 1,066,686	\$ 9,546,994
4	Utility Plant Acquisition Adj. (Net) (114-115)					
5	Total Net Utility Plant	\$ 8,326,353	\$ 153,955	\$ 8,480,308	\$ 1,066,686	\$ 9,546,994
	<b>OTHER PROPERTY AND INVESTMENTS</b>					
6	Nonutility Property (121)					
7	Less: Accumulated Depr. and Amort. (122)					
8	Net Nonutility Property					
9	Investment in Associated Companies (123)					
11	Utility Investments (124)					
12	Other Investments					
13	Special Funds(126-128)					
14	Total Other Property & Investments					
	<b>CURRENT AND ACCRUED ASSETS</b>					
16	Cash (131)	23,596	392	23,988	(4,087)	19,901
17	Special Deposits (132)					
18	Other Special Deposits (133)					
19	Working Funds (134)					
20	Temporary Cash Investments (135)					
21	Accounts and Notes Receivable-Net (141-144)	78,435		78,435		78,435
22	Accounts Receivable from Assoc. Co. (145)					
23	Notes Receivable from Assoc. Co. (146)					
24	Materials and Supplies (151-153)					
25	Stores Expense (161)					
26	Prepayments-Other (162)	10,043		10,043		10,043
27	Prepaid Taxes (163)	18,934		18,934		18,934
28	Interest and Dividends Receivable (171)					
29	Rents Receivable (172)					
30	Accrued Utility Revenues (173)	167,373		167,373		167,373
31	Misc. Current and Accrued Assets (174)					
32	Total Current and Accrued Assets	\$ 298,381	\$ 392	\$ 298,773	\$ (4,087)	\$ 294,686
	<b>DEFERRED DEBITS</b>					
32	Unamortized Debt Discount & Expense (181)					
33	Extraordinary Property Losses (182)					
34	Prelim. Survey & Investigation Charges (183)					
35	Clearing Accounts (184)					
36	Temporary Facilities (185)					
37	Miscellaneous Deferred Debits (186)	56,818	3,533	60,351	10,450	70,801
38	Research & Development Expenditures (187)					
39	Accumulated Deferred Income Taxes (190)	26,227		26,227		26,227
40	Total Deferred Debits	\$ 83,045	\$ 3,533	\$ 86,578	\$ 10,450	\$ 97,028
	<b>TOTAL ASSETS AND OTHER DEBITS</b>	\$ 8,707,779	\$ 157,880	\$ 8,865,659	\$ 1,073,049	\$ 9,938,708

**F-1 BALANCE SHEET**  
**Equity Capital and Liabilities**

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	2008 Lewis Fin. Adjustments (d)	Adjusted Year End Balance (e)	2008 SRF Fin Step Adjust (f)	Adjusted Year End Balance (g)
<b>EQUITY CAPITAL</b>						
1	Common Stock Issued (201)	\$ 16,767		\$ 16,767		\$ 16,767
2	Preferred Stock Issued (204)					
3	Capital Stock Subscribed (202,205)					
4	Stock Liability for Conversion (203, 206)					
5	Premium on Capital Stock (207)					
6	Installments Received On Capital Stock (208)					
7	Other Paid-In Capital (209,211)	1,113,401		1,113,401		1,113,401
8	Discount on Capital Stock (212)					
9	Capital Stock Expense (213)					
10	Retained Earnings (214-215)	(1,413,934)	10,643	(1,403,291)	11,081	(1,392,210)
11	Reacquired Capital Stock (216)					
12	Total Equity Capital	\$ (283,766)	\$ 10,643	\$ (273,123)	\$ 11,081	\$ (262,042)
<b>LONG TERM DEBT</b>						
13	Bonds (221)					
14	Reacquired Bonds (222)					
15	Advances from Associated Companies (223)					
16	Other Long-Term Debt (224)	3,205,855	147,237	3,353,092	1,061,968	4,415,060
17	Total Long-Term Debt	\$ 3,205,855	\$ 147,237	\$ 3,353,092	\$ 1,061,968	\$ 4,415,060
<b>CURRENT AND ACCRUED LIABILITIES</b>						
18	Accounts Payable (231)	51,947		51,947		51,947
19	Notes Payable (232)					
20	Accounts Payable to Associated Co. (233)	990,353		990,353		990,353
21	Notes Payable to Associated Co. (234)					
22	Customer Deposits (235)					
23	Accrued Taxes (236)	(486)		(486)		(486)
24	Accrued Interest (237)	65,694		65,694		65,694
25	Accrued Dividends (238)					
26	Matured Long-Term Debt (239)					
27	Matured Interest (240)					
28	Misc. Current and Accrued Liabilities (241)	(423)		(423)		(423)
29	Total Current and Accrued Liabilities	\$ 1,107,085		\$ 1,107,085		\$ 1,107,085
<b>DEFERRED CREDITS</b>						
30	Unamortized Premium on Debt (251)					
31	Advances for Construction (252)					
32	Other Deferred Credits (253)					
33	Accumulated Deferred Investment Tax Credits (255)					
34	Accumulated Deferred Income Taxes:					
35	Accelerated Amortization (281)					
36	Liberalized Depreciation (282)					
37	Other (283)					
38	Total Deferred Credits					
<b>OPERATING RESERVES</b>						
39	Property Insurance Reserve (261)					
40	Injuries and Damages Reserve (262)					
41	Pensions and Benefits Reserves (263)					
42	Miscellaneous Operating Reserves (265)					
43	Total Operating Reserves	\$		\$		
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>						
44	Contributions In Aid of Construction (271)	6,337,208		6,337,208		6,337,208
45	Accumulated Amortization of C.I.A.C. (272)	1,658,603		1,658,603		1,658,603
46	Total Net C.I.A.C.	\$ 4,678,605	\$ -	\$ 4,678,605	\$ -	\$ 4,678,605
46	<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>	\$ 8,707,779	\$ 157,880	\$ 8,865,659	\$ 1,073,049	\$ 9,938,708

## F-2 STATEMENT OF INCOME

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	2008LewisFin. Adjustments (d)	Adjusted Year End Balance (e)	2008SRFFin. Step Adjust (f)	Adjusted Year End Balance (g)
<b>UTILITY OPERATING INCOME</b>						
1	Operating Revenues(400)	\$ 1,268,877	\$ 39,144	\$ 1,308,021	\$ 96,340	\$ 1,404,361
2	Operating Expenses:					
3	Operating and Maintenance Expense (401)	828,524		828,524	11,000	839,524
4	Depreciation Expense (403)	332,650	11,375	344,025	12,199	356,224
5	Amortization of Contribution in Aid of Construction (405)	(168,604)		(168,604)		(168,604)
6	Amortization of Utility Plant Acquisition Adjustment (406)					
7	Amortization Expense-Other (407)					
8	Taxes Other Than Income (408.1-408.13)	105,123	3,596	108,719	23,883	132,602
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	3,934	97	4,031	280	4,311
10	<b>Total Operating Expenses</b>	<b>\$ 1,101,627</b>	<b>\$ 15,068</b>	<b>\$ 1,116,695</b>	<b>\$ 47,362</b>	<b>\$ 1,164,057</b>
11	Net Operating Income (Loss)	167,250	24,076	191,326	48,978	240,304
12	Income From Utility Plant Leased to Others (413)					
13	Gains(Losses) From Disposition of Utility Property (414)					
14	<b>Net Water Utility Operating Income</b>	<b>\$ 167,250</b>	<b>\$ 24,076</b>	<b>\$ 191,326</b>	<b>\$ 48,978</b>	<b>\$ 240,304</b>
<b>OTHER INCOME AND DEDUCTIONS</b>						
15	Revenues From Merchandising, Jobbing and Contract Work (415)					
16	Costs and Expenses of Merchandising, Jobbing and Contract Work (416)					
17	Equity in Earnings of Subsidiary Companies (418)					
18	Interest and Dividend Income (419)					
19	Allow. for funds Used During Construction (420)					
20	Nonutility Income (421)					
21	Gains (Losses) Form Disposition Nonutility Property (422)					
22	Miscellaneous Nonutility Expenses (426)					
23	<b>Total Other Income and Deductions</b>					
<b>TAXES APPLICABLE TO OTHER INCOME</b>						
24	Taxes Other Than Income (408.2)					
25	Income Taxes (409.2, 410.2, 411.2, 412.2, 412.3)					
26	<b>Total Taxes Applicable To Other Income</b>					
<b>INTEREST EXPENSE</b>						
27	Interest Expense (427)	154,183	12,966	167,149	37,347	204,496
28	Amortization of Debt Discount & Expense (428)		467	467	550	1,017
29	Amortization of Premium on Debt (429)					
30	<b>Total Interest Expense</b>	<b>\$ 154,183</b>	<b>\$ 13,433</b>	<b>\$ 167,616</b>	<b>\$ 37,897</b>	<b>\$ 205,513</b>
31	<b>Income Before Extraordinary Items</b>	<b>13,067</b>	<b>10,643</b>	<b>23,710</b>	<b>11,081</b>	<b>34,791</b>
<b>EXTRAORDINARY ITEMS</b>						
32	Extraordinary Income (433)					
33	Extraordinary Deductions (434)					
34	Income Taxes, Extraordinary Items (409.3)					
35	<b>Net Extraordinary Items</b>					
	<b>NET INCOME (LOSS)</b>	<b>\$ 13,067</b>	<b>\$ 10,643</b>	<b>\$ 23,710</b>	<b>\$ 11,081</b>	<b>\$ 34,791</b>

**F-1 BALANCE SHEET**  
**Equity Capital and Liabilities**

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	2008LewisFin. Adjustments (d)	Adjusted Year End Balance (e)	2008SRFFin. Step Adjust (f)	Adjusted Year End Balance (g)
<b>EQUITY CAPITAL</b>						
1	Common Stock Issued (201)	\$ 16,767		\$ 16,767		\$ 16,767
2	Preferred Stock Issued (204)					
3	Capital Stock Subscribed (202,205)					
4	Stock Liability for Conversion (203, 206)					
5	Premium on Capital Stock (207)					
6	Installments Received On Capital Stock (208)					
7	Other Paid-In Capital (209,211)	1,113,401		1,113,401		1,113,401
8	Discount on Capital Stock (212)					
9	Capital Stock Expense(213)					
10	Retained Earnings (214-215)	(1,413,934)	10,643	(1,403,291)	11,081	(1,392,210)
11	Reacquired Capital Stock (216)					
12	Total Equity Capital	\$ (283,766)	\$ 10,643	\$ (273,123)	\$ 11,081	\$ (262,042)
<b>LONG TERM DEBT</b>						
13	Bonds (221)					
14	Reacquired Bonds (222)					
15	Advances from Associated Companies (223)					
16	Other Long-Term Debt (224)	3,205,855	147,237	3,353,092	1,061,968	4,415,060
17	Total Long-Term Debt	\$ 3,205,855	\$ 147,237	\$ 3,353,092	\$ 1,061,968	\$ 4,415,060
18	<b>TOTAL CAPITALIZATION</b>	\$ 2,922,089	\$ 157,880	\$ 3,079,969	\$ 1,073,049	\$ 4,153,018

Line No. (a)	Account Title (Number) (a)	Current Year End Balance (c)	Lewis Fin. Adjustments (g)	Adjusted Year End Balance (f)	Lewis Fin. Adjustments (g)	Adjusted Year End Balance (f)
<b>EQUITY CAPITAL</b>						
1	Common Stock Issued (201)	0.57%	0.00%	0.54%	0.00%	0.40%
2	Preferred Stock Issued (204)					
3	Capital Stock Subscribed (202,205)					
4	Stock Liability for Conversion (203, 206)					
5	Premium on Capital Stock (207)					
6	Installments Received On Capital Stock (208)					
7	Other Paid-In Capital (209,211)	38.10%	0.00%	36.15%	0.00%	26.81%
8	Discount on Capital Stock (212)					
9	Capital Stock Expense(213)					
10	Retained Earnings (214-215)	-48.39%	6.74%	-45.56%	1.03%	-33.52%
11	Reacquired Capital Stock (216)					
12	Total Equity Capital	-9.71%	6.74%	-8.87%	1.03%	-6.31%
<b>LONG TERM DEBT</b>						
13	Bonds (221)					
14	Reacquired Bonds (222)					
15	Advances from Associated Companies (223)					
16	Other Long-Term Debt (224)	109.71%	93.26%	108.87%	98.97%	106.31%
17	Total Long-Term Debt	109.71%	93.26%	108.87%	98.97%	106.31%
18	<b>TOTAL CAPITALIZATION</b>	100.00%	100.00%	100.00%	100.00%	100.00%

**Hampstead Area Water Company****SPS-4****2008 SRF Financing and Step Increase****Journal Entries**

Dr.	131 Cash	1,100,885	
Cr.	224 Other Long Term Debt		1,100,885
To record receipt of cash and related debt obligations			
Dr.	101 Utility Plant in Service - Booster/Meter Station	38,790	
Dr.	101 Utility Plant in Service - Pumping/Metering Equipment	32,823	
Dr.	101 Utility Plant in Service - Mains	1,007,272	
Dr.	186 Miscellaneous Deferred Debits	22,000	
Cr.	131 Cash		1,100,885
To record the additions to plant and the expenditures of cash			
Dr.	403 Depreciation Expense	12,199	
Cr.	108 Accumulated Depreciation		12,199
To record annual depreciation on the additions to plant			
Dr.	408 Taxes other than Income - State Utility Prop. Tax	7,040	
Dr.	408 Taxes other than Income - Local Prop. Tax	16,843	
Dr.	409 State Business Enterprise Taxes	280	
Cr.	131 Cash		24,163
To record state utility property tax expense on additions to plant			
Dr.	224 Other Long Term Debt	38,917	
Dr.	427 Interest Expense	37,347	
Cr.	131 Cash		76,264
To record 1st year principal repayment and related interest expense			
Dr.	428 Amortization of Debt Expenses	550	
Cr.	186 Miscellaneous Deferred Debits		550
To record 1st year amortization of debt expenses			
Dr.	131 Cash	11,000	
Cr.	400 Operating Revenues		11,000
Dr.	928 Regulatory Commission Expense	11,000	
Cr.	186 Miscellaneous Deferred Debits		11,000
To record receipt of cash and expense related to recovery of step increase expenditures			
Dr.	131 Cash	85,340	
Cr.	400 Revenue		85,340
To record 1st year revenue			

**Hampstead Area Water Company****SPS-5****2008 SRF Financing and Step Increase**

<u>Plant / Depreciation</u>				<u>2008</u> <u>Depr. Exp.</u>
304	Booster/Metering Station	\$38,790	2.50%	\$485
311	Pumping/Metering Equipment	32,823	10.00%	1,641
331	Main	<u>1,007,272</u>	2.00%	<u>10,073</u>
Total		<u>\$1,078,885</u>		<u>\$12,199</u>

Note: 2008 depreciation expenses reflects a half year depreciation.



**Hampstead Area Water Company**

SPS-6

**2008 SRF Financing and Step Increase****State Property Taxes**

304	Booster/Metering Station	\$38,790
311	Pumping/Metering Equipment	32,823
331	Main	<u>1,007,272</u>
	Total Plant	\$1,078,885
108	Accumulated Depreciation	<u>12,199</u>
	Net Plant	<u>\$1,066,686</u>
	Thousand Dollars of Assessed Value	\$1,067
	Property Tax Rate	<u>6.60</u>
	State Property Taxes	<u>\$7,040</u>

**Local Property Taxes****Hampstead**

304	Booster/Metering Station	
311	Pumping/Metering Equipment	
331	Main	<u>410,161</u>
	Total Plant	\$410,161
108	Accumulated Depreciation	<u>4,102</u>
	Net Plant	<u>\$406,060</u>
	Thousand Dollars of Assessed Value	\$406
	Property Tax Rate	<u>18.54</u>
	Hampstead Property Taxes	<u>\$7,528</u>

**Atkinson**

304	Booster/Metering Station	\$38,790
311	Pumping/Metering Equipment	32,823
331	Main	<u>597,111</u>
	Total Plant	\$668,724
108	Accumulated Depreciation	<u>8,097</u>
	Net Plant	<u>\$660,627</u>
	Thousand Dollars of Assessed Value	\$661
	Property Tax Rate	<u>14.10</u>
	Atkinson Property Taxes	<u>\$9,315</u>

**State Business Enterprise Taxes**

Interest Expense	\$37,347
Business Enterprise Tax Rate	<u>0.75%</u>
Business Enterprise Taxes	<u>\$280</u>

**Total Taxes** \$24,163

**Hampstead Area Water Company****SPS-7****2008 SRF Financing and Step Increase****Calculation of Revenue Requirement**

	Estimated 2008
Addition to Rate Base:	
Plant Additions:	
Booster/Metering Station	\$38,790
Pumping/Metering Equipment	32,823
Main	<u>1,007,272</u>
Total Addition to Plant	\$1,078,885
Less: Accumulated Depreciation	<u>12,199</u>
Net Plant	\$1,066,686
Add: Cash Working Capital	
Total Additions to Rate Base	\$1,066,686
Rate of Return	<u>3.448%</u>
Additional Net Operating Income Required	\$36,779
Add: Operating and Maintenance Expenses	
Depreciation Expense	24,397
State Property Taxes	7,040
Local Property Taxes	16,843
Business Enterprise Taxes	<u>280</u>
Total Additional Revenue Required	\$85,340
2007 Total Income	<u>\$1,268,877</u>
Total Revenue Requirement after Additions	<u>\$1,354,217</u>
Percentage Increase	<u>6.73%</u>

Note: Amounts in this schedule are estimates and may change upon completion of the interconnection. When the actual amounts are known, the Company will submit such amounts for review and approval.

**EXHIBIT 4**

**STATE OF NEW HAMPSHIRE**

**PUBLIC UTILITIES COMMISSION**

**RE: HAMPSTEAD AREA WATER COMPANY, INC.**

**DW-08-**

**PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT, TO  
CONSTRUCT WATER SYSTEM INTERCONNECTION, APPROVAL TO  
EXTEND FRANCHISE AREA, AND FOR STEP RATE INCREASE**

**PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR**

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive,  
Biddeford, Me.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to support Hampstead Area Water Company's  
("Company" or "HAWC") effort to obtain Public Utilities Commission ("PUC")  
approval of financing with State Revolving Funds ("SRF") and approval of  
related step increase. My responsibilities include preparing the financial exhibits  
and prefiled direct testimony which describes the financing, the step increase and  
the financial schedules. In addition, I am prepared to testify in support of  
financing and step increase.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public  
Utilities Commission, including requests for new and expanded franchises,

requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for rate and step increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to borrow funds from the State of New Hampshire's Revolving Fund, which will allow it to constructed approximately 15,000 feet of mains to interconnect its Atkinson and Hampstead water systems.

Q. Please describe the construction of the mains to interconnect the Atkinson and Hampstead water systems.

A. The Company is proposing to install approximately 15,000 feet of 10" PVC water main in order to interconnect the Walnut Ridge Water System and the Hampstead Area Water System. Starting in Atkinson with an existing 8" PVC water main on Route 121 across from Winslow Drive, the 10" PVC SDR21 water main is proposed to run northerly to the intersection of Whippoorwill Lane and Route 121 where it will connect to a section of existing 8" PVC water main. It will then start to run northerly again from the intersection of Pope Road to the existing Brickett's Mill small community water system at the intersection of McGregor Drive and Route 121 in Hampstead. At the intersection of Ricker Road and Route 121, the 10" water main will continue to run northerly to an existing 8" main at the intersection of West Road and Route 121 in Hampstead. The project will include 10" PVC water mains, associated fittings, valves, and a possible booster station.

Q. When does the Company anticipate beginning the construction of the mains?

A. The Company anticipates construction beginning in the spring of 2009.

Q. When does the Company anticipate completing the construction of the mains?

A. The Company anticipates completion of the project roughly 44 days after construction begins.

What are the costs of the interconnection of the Atkinson and Hampstead water systems?

A. The estimated costs are \$1,100,885.

Q. How much of the costs will be financed?

A. All of the costs.

Q. What is the source of financing.

A. The State Revolving Fund.

Q. Has the project been approved by the New Hampshire Department of Environmental Services ("DES")?

A. DES recommends and supports the project.

Q. Are the funds available from the SRF?

A. Yes. DES has indicated that it has \$1,100,000 for this project.

Q. What are the terms and conditions of the SRF loan?

A. The length of the loan is 20 years. The interest rate is 3.448%.

Q. Did the Company consider any other financing options?

A. No.

Q. How does the Company propose to recover its investment?

The Company proposes to recover its investment through an increase in rates to its customers via a step increase.

Q. Will the DES approve the loan without an increase in rates?

A. No.

Q. How much additional revenue will be required in order to recover and earn a return on the investment?

As shown on SPS-7, the total additional revenue required is \$85,340.

Has the Company determined the impact of the financing and the additions to plant on the Company's financial statements?

Yes. I have prepared proforma financial statements identified as SPS 1-1 – SPS 7.

Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Deferred Debits?

Yes. Generally, column (a) identifies the line number on the schedule. Column (b) identifies the account title and PUC account number. Column (c) identifies the actual December 31, 2007 account balances. Column (d) identifies the 2008 Lewis financing adjustments. The 2008 Lewis financing was filed earlier this year and is the subject of DW 08-033. Column (e) reflects the adjusted December 31, 2007 account balances for the 2008 Lewis financing. Column (f) identifies the 2008 SRF financing and step increase adjustments. Column (g) reflects the adjusted December 31, 2007 account balances for the SRF financing and step increase.

Please explain the adjustments related to 2008 SRF financing and step increase.

- A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$1,078,885 represents the total additions to plant in service for the costs of the mains and other plant. There are no retirements associated with the new plant.

The second adjustment to Accumulated Depreciation for \$12,199 represents a half-year depreciation on the \$1,078,885 of plant additions.

The third adjustment to Cash for (\$4,087) is the net of the cash received from the SRF financing and the anticipated revenue from the proposed step increase less payment for the new plant, the repayment of the new loan and the payment of increased taxes.

The fourth adjustment to Miscellaneous Deferred Debits for \$10,450 is the net of the costs incurred in order to pursue DES approval of the financing and PUC approval of the financing and step increase and the amortization of the SRF financing costs and the recovery of the step increase costs.

- Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

- A. The description of the columns is the same as SPS 1-1.

- Q. Please explain the adjustments related to the 2008 SRF financing and step increase.

- A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for \$11,081 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation expenses, taxes and interest expense).

The second adjustment to Other Long Term Debt for \$1,061,968 represents the net amount of the borrowings of \$1,100,885 and the first year repayment on the loan of \$38,917.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to the 2008 SRF financing and step increase.

A. There are 5 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of \$96,340 represents the anticipated revenue requirement associated with the additions to plant and recovery of one half of the SRF financing and step increase expenditures. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Operation and Maintenance Expense represents the regulatory commission expense associated with the SRF financing and step increase.

The third adjustment to Depreciation Expense of \$12,199 represents the increase due to a half-year depreciation on the additions to plant.

The fourth adjustment to Taxes other than Income of \$23,883 and Income Taxes of \$280 represents the increase in state and local property taxes and the state business enterprise tax.



The fifth adjustment to Interest Expense of \$37,347 and Amortization of Debt Expense of \$550 represents the first year interest expense on the new debt and the first year amortization of the financing and step increase costs.

Q. Would you please explain Schedule SPS 3, entitled Balance Sheet, Equity Capital and Liabilities?

A. The actual 2007 Current Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's debt to equity position is heavily weighted towards debt due to its negative equity position. The Company's owner has made significant equity contribution in recent years. In 2007 the Company realized net income due to its recent rate increase, which reduces the negative equity position. The Company expects that the ratio will continue to improve.

Q. Should a debt to equity ratio that is heavily weighted toward debt be of concern to the Commission?

A. Yes. While a debt to equity ratio at this level would be unusual for many investor owned utilities, the nature of Hampstead Area Water Company is different from the typical investor owned utility. In this case, the owner of the Company is also the owner of the affiliated company which holds much of the existing debt. The owner has the resources to provide additional capital if the Company needs additional capital in order to meet its obligations. By financing the proposed projects with SRF rather than with higher cost bank debt or additional equity, the Company will be able to take advantage of the low interest costs and keep the ultimate cost of the projects down for itself and its customers.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the borrowing of funds, (2) the utilization of the funds for the additions to plant, (3) the repayment of the principal and interest on the loan, and (4) the anticipated revenue requirement via the step increase.

Q. Would you like to explain SPS-5?

A. SPS-5 is a schedule of plant and depreciation. Please note that the Company's 2008 depreciation expense reflects a half-year depreciation.

Q. Would you please explain SPS-6?

A. SPS-6 is a schedule showing the calculation of the increase in property taxes as a result of the plant being reflected in the assessed value for state and local property taxes. Also, it shows the calculation of the increase in business enterprise taxes.

Q. Would you please explain Schedule SPS 7, entitled Calculation of Revenue Requirement?

A. The sum of the additions to plant less the related accumulated depreciation result in a rate base of \$1,066,686. The Company is applying the cost of the debt of 3.448 to determine the additional net operating income required. In addition, the Company adds a full year depreciation and taxes to the additional net operating income required in order to determine the total additional revenue requirement of \$85,340.

Q. How does the Company propose to repay the new debt?

The Company proposes to increase rates via a step increase upon completion of the project. The Company's ability to repay the SRF loan is dependant on PUC approval of the step increase.

Why should the Commission approve the financing and step increase?

The Commission should approve the financing because it is in the best interest of the Company and its customers. The construction of the main and the interconnection of the Atkinson and Hampstead water system are necessary to improve flushing capabilities, to provide water in the event of an emergency and to provide more stability throughout the system as a whole.

Is there anything else that the Company would like to bring to the Commission's attention?

A. No.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve the 2008 SRF financing of \$1,100,885, under the terms stated previously and the step increase amounting to an increase in revenues of \$85,340.

Does this conclude your testimony?

Yes.

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION  
RE: HAMPSTEAD AREA WATER COMPANY, INC.

DW-08-

**PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT, TO CONSTRUCT  
WATER SYSTEM INTERCONNECTION, APPROVAL TO EXTEND FRANCHISE  
AREA, AND FOR STEP RATE INCREASE**

**PRE-FILED TESTIMONY OF HAROLD MORSE**

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

A. My name is Harold Morse. My business address is 54 Sawyer Avenue, Atkinson, New Hampshire. I am the President of Hampstead Area Water Company, Inc., which we refer to as "HAWC".

2. 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 (see Schedule A, attached to the Petition). HAWC is a New Hampshire corporation, authorized by this Commission to produce and distribute water within the Company's authorized franchise areas throughout southeastern New Hampshire.

3. Q. Why is the Company seeking this financing?

A. The proposed financing would fund the interconnection of HAWC'S two core systems, the Atkinson Core System and the Hampstead Core System. This interconnection would be in the best interest for the Company in terms of system operation and resource planning

and has the support of the Department of Environmental Services.

4. Q. Can you describe this interconnection?

A. The Company's two core systems extend over most of Hampstead and Atkinson.

There are two water storage tanks, one in Atkinson and one in Hampstead. The construction of the interconnection would contemplate the installation of approximately 15,000 feet of pipe along Route 121 between Hampstead and Atkinson, New Hampshire. The proposed franchise area would extend into the area between the two existing core franchise areas.

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

A. The planned route for this interconnection is from the Hampstead Core system Route 121 and following Route 121 to the Atkinson Core system. This project would be proceeding through a portion Atkinson that is not presently franchised by the Company. It is anticipated that homeowners along the route would be connecting to the system in the future and as well as providing service to parcels that are currently developed or that will be developed in the future which are located to either side of Route 121 as well as being near service extensions presently existing in areas previously franchised by the Company. Accordingly, the Company is proposing to franchise that area which lies between Hampstead and Atkinson as shown on the Franchise Plan and described in the Franchise Description, attached at Exhibit 3.

6. Q. Why would this project be in the public interest and consistent with the public good?

A. The project would enhance the Company's ability to provide safe and reliable drinking water to its customers in its franchise areas at a reasonable cost. The interconnection will provide stability and responsiveness to the two core systems both as to overall water supply and

emergency supply. It would allow the Company to access the water resources in the two systems in time of drought. The interconnection would allow the two water storage tanks to be connected as part of the interconnection of these two systems. The system improvements being proposed and the estimated cost of the improvements are reasonably necessary to provide such service to the Company's customers.

7. Q. Does this conclude your testimony?

A. Yes.