

DW 05-154

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Approval of Financing, Acquisition of Assets and Permanent Rates

Order *Nisi* Approving Financing

ORDER NO. 24,602

March 17, 2006

I. BACKGROUND

Hampstead Area Water Company, Inc. (HAWC) is a New Hampshire public utility as defined by RSA 362:2 and 362:4 and currently serves approximately 2,500 customers in various communities throughout southeastern New Hampshire. On September 21, 2005, HAWC filed with the New Hampshire Public Utilities Commission (Commission) a petition relative to a new water system intended to serve the Granite Village – Phase V subdivision located on Freedom Hill Road in the Town of Hampstead, New Hampshire. In its petition, HAWC seeks authority to: 1) acquire the assets of the water system serving the Granite Village – Phase V subdivision; 2) issue debt in order to finance the acquisition of the water system assets; and 3) charge permanent rates to the customers served by the Granite Village – Phase V water system. In support of its petition, HAWC also submitted copies of agreements, schedules, and pre-filed testimony of Peter A. Lewis, President of HAWC; John Sullivan, controller for HAWC; and Oliver Poirier, P.E. of HAWC.

The Granite Village – Phase V system is intended to serve a total of 38 single-family dwelling units within HAWC's existing Kent Farm franchise area. The Commission granted HAWC franchise approval by way of *Kent Farm Water Company*, 72 NH PUC 43 (1987).

The owner and developer of the Granite Village – Phase V subdivision is H & C Ashford, LLC (Ashford). According to the petition, Lewis Builders Development, Inc. (LBDI), an affiliate of HAWC, will construct the majority of the water system. HAWC intends to initially connect the Granite Village – Phase V system with its Kent Farm system and later to its Hampstead Core system.

HAWC filed with its petition an executed water rights and easement deed between Ashford and HAWC and an executed “Design – Build – Operate Agreement” between Ashford, LBDI, and HAWC, both of which are dated March 11, 2004. Petition at 6 and 12. The assets include a well, a pumping and treatment station with appurtenances required by the system and transmission and distribution mains, as well as services. Pursuant to the petition, the purchase price is determined by multiplying the number of residential units, 38, by \$1,000 per service connection within the Granite Village – Phase V system, for a total purchase price of \$38,000. This is the amount HAWC proposes to finance. According to the filing, the cost to build the water system is estimated at \$269,927. HAWC plans to treat the difference between \$269,927 and \$38,000, or \$231,927, as Contributions in Aid of Construction (CIAC).

HAWC seeks to finance the purchase of the Granite Village – Phase V water system assets through Ashford. HAWC filed with its petition a proposed promissory note, whereby HAWC promised to pay Ashford the sum of \$38,000 over 240 equal installments at an interest rate equal to 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the quarter preceding Commission approval, to be adjusted every three years thereafter. All outstanding principal and interest on the note will be due and payable on the

twentieth anniversary of the note. HAWC also seeks authority to charge the Granite Village – Phase V customers its Kent Farm system tariff rate.

On August 16, 2005, the Commission received correspondence from the Hampstead Board of Selectmen indicating it had received notification of the proposed petition regarding the Granite Village – Phase V water system. No subsequent correspondence has been received from the Hampstead Board of Selectmen relative to this docket.

On January 5, 2006, HAWC amended its petition and filed corrected Continuing Property Records (CPRs) for the 2-inch supply mains it intends to purchase. On March 16, 2006, Staff submitted a letter to the Commission recommending the Commission approve HAWC's petition, subject to the condition that the Commission Audit Staff examine the CPRs for the Granite Village – Phase V water system within 60 days of final completion of construction of the water system. Staff stated an audit of the CPRs was not performed because construction of the water system had not yet been completed. Staff concurred with HAWC's request that \$38,000 be allowed as rate base and that \$231,927 of the estimated construction cost of \$269,927 be treated as CIAC, subject to confirmation by the Commission's Audit Staff. Staff estimated HAWC's initial interest rate to be approximately 9.50%, given the then current Prime Rate.

II. COMMISSION ANALYSIS

In the instant petition, HAWC requests Commission authorization to establish permanent rates for the Granite Village – Phase V customers. HAWC previously received franchise approval for this area. See *Kent Farm Water Company*, 72 NH PUC 43 (1987). HAWC has previously received approval to charge the existing tariff rates on a temporary basis.

By Order No. 24,556 (December 2, 2005), the Commission approved temporary rates in the amount of \$25.00 per quarter and \$1.80 per 100 cubic feet of water consumed, effective November 30, 2005, on a service-rendered basis. These temporary rates will remain in effect until replaced by rates ultimately approved in Docket No. DW 05-112, HAWC's pending rate case. Accordingly, we find that separate approval of rates for Granite Village – Phase V is not necessary.

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State may issue evidences 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.” The New Hampshire Supreme Court has further provided that the public good consideration 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 previously stated, HAWC proposes to use the proceeds of the financing to purchase the Granite Village – Phase V water system assets from Ashford. Based upon our review of the record, we find that the proposed purchase price is reasonable, especially in light of the fact that the estimated construction cost for these assets is estimated at \$269,927 and that approximately \$231,927 of that amount will be recorded as CIAC and thus will not be included in rate base for the determination of future rates. This methodology of determining the purchase price and treatment of CIAC is consistent with Order No. 24,362 (August 19, 2004) in Docket No. DW 02-128, which reviewed HAWC's purchase of other assets from LBDI and third-party developers. We agree with Staff's recommendation regarding an audit of HAWC's CPRs for the

Granite Village – Phase V system once the system is complete and final construction costs are known. Such an examination will ensure that HAWC’s plant accounting is accurate and in compliance with the Uniform System of Accounts for Water Utilities. For the foregoing reasons, we find that the use of the proposed funds is consistent with the public good.

We next review the reasonableness of the proposed financing rate and its impact on ratepayers. According to the proposed terms of the note payable, HAWC will pay Ashford the sum of \$38,000 in 240 equal installments including interest at a rate equal to 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the quarter preceding Commission approval in this docket and then adjusted on that anniversary date every three years thereafter. Staff anticipates the initial interest rate to be approximately 9.50%. We find that the terms of the financing under consideration in the instant docket are consistent with those approved by the Commission in other recent financings by HAWC and that these terms will not have an adverse impact on future customer rates. Based on our review of the record and the discussion above, we find that the proposed financing for the purchase of the assets of the Granite Village – Phase V water system in the amount of \$38,000 from Ashford is consistent with the public good. Accordingly, we approve the proposed financing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Hampstead Area Water Company, Inc.’s request to finance the purchase of the Granite Village – Phase V water system assets from H & C Ashford, LLC under the terms and conditions stated in Hampstead Area Water Company, Inc.’s petition, is approved; and it is

FURTHER ORDERED, that within 60 days from the date of completion of construction of the Granite Village – Phase V water system, Hampstead Area Water Company, Inc. shall make available for review by the Commission Staff the Continuing Property Records pertaining to the Granite Village – Phase V water system assets; and it is

FURTHER ORDERED, that Hampstead Area Water Company, Inc. shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than March 27, 2006; and to be documented by affidavit filed with this office on or before April 17, 2006; 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 April 3, 2006 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 April 10, 2006; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 17, 2006, unless Hampstead Area Water Company, Inc. 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 Hampstead Area Water Company, Inc. shall file a compliance tariff with the Commission on or before April 17, 2006, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this seventeenth
day of March, 2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary