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November 14, 2018

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

RE: DW 18-147 Hampstead Area Water Company, Inc.
Petition for Authority to Issue Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On September 21, 2018, Hampstead Area Water Company Inc. (HAWC or Company) submitted a petition pursuant to RSA 369:1, seeking authority to obtain a \$1,000,000 revolving working line of credit (LOC) from Pentucket Bank. The proceeds will be used to assist the Company with improvements to the various water systems and distribution lines the Company owns. Additionally, the LOC will be used for other short term working capital needs. The testimony of John Sullivan, Controller for HAWC and Lewis Builders, an affiliate of HAWC, and Steven P. St Cyr, HAWC's consultant, accompanied the petition. After review of the filing, Staff recommends the Commission approve HAWC's proposed financing request.

Under RSA 369:1, public utilities engaged in business in this state may issue evidence 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." Analysis of the public good involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009). Consistent with past financing dockets, Staff reviewed HAWC's filing as a routine financing.

Mr. Sullivan's testimony indicates the LOC would be payable on demand with a floating interest rate equal to the Prime Rate as published in the Wall Street Journal. Mr. Sullivan's testimony

further states the loan would be secured by an interest in the assets of the Company as well as guaranteed by Christine Lewis Morse, the sole shareholder and Vice President of HAWC. Pentucket Bank has agreed to waive any annual line fee and would charge interest only on funds advanced and outstanding. Mr. Sullivan's testimony indicates the primary reason for the LOC is to have increased financial flexibility and the ability to fund minor capital additions while reducing the frequency of Commission financing approvals, which will result in increased productivity and customer service.

Mr. St Cyr's testimony describes the financial impact to the Company and the use of the funds. Specifically, the funds would be used for mostly routine capital projects, such as rebuilding and replacement of pump stations, drilling of wells, replacement of pumping equipment, the replacement of mains and services, the replacement of meters, vehicle purchases and other projects. Mr. St. Cyr further explains that when the sum of the investments in plant reaches the point that it begins to reduce the actual rate of return of the Company, HAWC will seek rate recovery of its investments.

Staff reviewed the petition and believes the terms of the financing are favorable and consistent with current market conditions. HAWC does not currently have any typical short term financing options in place and this solution provides financial flexibility for the Company. It is Staff's understanding the projects financed by the LOC would be routine in nature and as explained by the Company, when it decides to pursue recovery of these capital expenditures, it will petition the Commission. At such time, HAWC anticipates that the completed projects would be reviewed for prudence as well as use and usefulness. Staff also concurs with HAWC's assertion that the LOC will result in administrative efficiencies relative to financing routine capital projects and asset additions.

Staff notes that absent an improvement in HAWC's capital structure, the proposed LOC stands to increase HAWC's debt capitalization. Based upon HAWC's 2017 Annual Report filed with the Commission, if it draws on the entire \$1 million LOC, the Company's debt capitalization would increase from 61.8 percent to 67 percent, and its equity capitalization would decrease from 38.2 percent to 33 percent, resulting in a 5.2% change in each. As such, this scenario would move the Company away from the balanced capital structure the Commission expects all utilities to achieve. However, HAWC has just received a rate increase in DW 17-118¹ and the Company's shareholder has demonstrated a prior willingness to make equity infusions into the Company, when necessary. Nevertheless, HAWC's capital structure will require close monitoring by the Commission in the future.

Staff believes that HAWC's proposed LOC is consistent with the public good in that it will enable the Company to more efficiently serve the needs of its customers. Staff believes the terms of the proposed LOC are favorable and HAWC has demonstrated the proposed use of the funds is appropriate and consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers. RSA 374:1.

Staff has consulted with the Office of Consumer Advocate (OCA) prior to filing this recommendation.² The OCA takes no position. Thank you for your assistance in this matter. If you have any questions regarding this matter, please contact me.

¹ See Commission Order No. 26,165 (July 31, 2018).

² The OCA filed a notice of participation on September 25, 2018.

Respectfully,



Anthony J. Leone
Utility Analyst

cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**
- DEBRA A HOWLAND
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21 S. FRUIT ST, SUITE 10
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- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**