

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

RE: HAMPSTEAD AREA WATER COMPANY, INC.

DW 19-

**PETITION FOR APPROVAL TO ACCEPT DRINKING WATER GROUNDWATER
TRUST FUND GRANT FUNDS AND FINANCING; AND BANK FINANCING**

The Hampstead Area Water Company (HAWC or the Company) hereby petitions the Public Utilities Commission (the Commission) for authority to accept a grant from the New Hampshire Department of Environmental Services (NHDES), Drinking and Groundwater Trust Fund, established under RSA 485-F, (DWGTF) in the amount of Three Million, Four Hundred Forty-Three Thousand Seven Hundred Fifty (\$3,283,750.00) Dollars, to incur long term debt from the DWGTF in the amount of Eight Hundred Ninety Four Thousand Four Hundred Ninety Four (\$894,494.00) Dollars, and to incur long term debt from a bank in the amount of Three Hundred Ninety Two Thousand Five Hundred (\$392,500.00) Dollars. 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 and Strafford 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) As the Commission is aware, HAWC is participating in a NHDES project to provide safe drinking water to the Town of Plaistow from the City of Manchester, through Derry,

Salem, and HAWC's core system, known as the Southern New Hampshire Regional Water Interconnection Project. (the Project). The cost for Phase I of the Project is currently Twenty-Six Million Nine Hundred Thousand Dollars (\$26,900,000.00).

- 3) During the time the Project was being finalized federal tax laws changed, effective in January 2018, resulting in the removal of a tax exemption to water companies such as HAWC receiving Contributions in Aid of Construction (CIAC).¹ The result of this change in the federal tax law is that HAWC will now incur federal taxes by accepting grant money from the DWGTF as part of Phase I of the Project in the amount of Eight Hundred Ninety Four Thousand Four Hundred Ninety Four (\$894,494.00).²
- 4) The proposed financing is necessary for HAWC to pay for CIAC federal tax generated by it accepting the DWGTF grant money as part of the overall Project. In addition, the financing will include a portion of HAWC's Merrimack Source Development Charge (MSDC) levied by NHDES that are associated with the Project in the amount of Three Hundred Ninety-Two Thousand Five Hundred (\$392,500.00) Dollars. This financing would be in the best interest for the Company both for its participation in the Project, and for its system operation and resource planning and has the support of the NHDES.
- 5) The Company's core system extends over most of Hampstead and Atkinson. HAWC was asked to participate in the Project, a NHDES project, in order to provide safe drinking water to the Town of Plaistow.
- 6) As part of Phase I of the Project HAWC qualified for a grant from NHDES DWGTF in

¹HAWC has filed a separate Petition, Docket# DW 19-136, to revise its Tariff to account for this tax law change regarding CIAC similar to a Petition filed by jointly by Pennichuck Water Works, Pennichuck East, and Pittsfield Aqueduct pending before the Commission in Docket# DW 18-189.

² HAWC hired a law firm to explore all options to avoid this CIAC tax including consulting with the law firm's Washington D.C.-based tax lawyer who concluded there were no options.

- the amount of Three Million Two Hundred Eighty-Three Thousand Seven Hundred Fifty (\$3,283,750.00) Dollars. (See Exhibits 1 and 6).
- 7) The Company plans to borrow Three Hundred Ninety-Two Thousand Five Hundred (\$392,500.00) Dollars for the MSDC associated with the Project. Accordingly, HAWC is requesting approval of financing its portion of Phase I of the Project plus the tax impact for a total financing request of One Million Two Hundred Eighty-Six Thousand Nine Hundred Ninety-Four (\$1,286,994.00) Dollars.
 - 8) The cost of the grant awarded to HAWC plus the amount it seeks to borrow from NHDES DWGTF is contained in a letter dated August 16, 2019 to HAWC submitted to NHDES. (See Exhibit 1).
 - 9) The Company's Project costs are attached. (See Exhibit 2).
 - 10) The State of New Hampshire has approved HAWC's request for financing regarding the CIAC tax subject to various terms and conditions up to \$1,204,815.00. See Exhibit 1. HAWC calculates the CIAC tax will be \$894,494.00 and thus will only borrow that amount. Generally, the terms and conditions are as follows:
 - a) The borrowing will amount to \$894,494.00.
 - b) The loan will mature 25 years from the date of closing.
 - c) The interest rate is currently 2.97%.
 - d) The payment of principal and interest based on a 25-year amortization will be due monthly beginning 30 days from the date of closing.
 - 11) A bank has preliminarily indicated that it would approve HAWC's request for financing for a portion of the MSDC the Company will incur subject to various terms and conditions. Generally, the terms and conditions are as follows:

- a) The borrowing will amount to \$392,500.00.
 - b) The loan will mature 20 years from the date of closing.
 - c) The interest rate is currently projected to be 5.00%.
 - 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.
- 12) The State of New Hampshire's commitments are subject to receipt of Commission approval of the financing.
- 13) The borrowings being proposed by the Company are in the public interest and consistent with the public good because it allows the Project to be as efficient as possible while accomplishing the goal of providing safe and reliable drinking water to the Town of Plaistow, and 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, and all are reasonably necessary to provide such service to the Company's customers and ultimately to the Town of Plaistow.
- 14) Simultaneously with this petition the Company is filing the direct testimony of Stephen P. St. Cyr (Exhibit 3) and related exhibits (Exhibit 4), 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 financings, the proposed financings and the utilization of the funds from such financings. The exhibits include the cost of the financings, and the accounting and financial aspects of this borrowing. The direct testimony of Harold Morse describes the Project and the reasons why the Company's participation in the Project is crucial to its success.

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

- A. Authorize the Company to accept a grant from NHDES DWGTF in the amount of \$3,283,750.00.
- B. Authorize the Company to borrow up to \$1,204,815.00 from NH DES to pay for the CIAC tax incurred by the Company accepting this grant money, which the Company calculates such tax will be \$894,494.00.
- C. Authorize the Company to borrow up to \$392,500.00 from a bank to pay a portion of the MSDC the Company will incur for the Project.
- D. Find that the execution of loan documents by the Company for purpose of consummating the aforementioned financing is consistent with the public good;
- E. 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;
- F. 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; and
- G. Grant such other and further relief as may be just and reasonable.

Dated:

Respectfully submitted,
The Hampstead Area Water Co., Inc.



Anthony S. Augeri, Assist. Secretary