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STATE OF NEW HAMPSHIRE



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NHPUC 19DEC19PM2:22

December 19, 2019

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

RE: DW 19-176 Hampstead Area Water Company, Inc.
Petition to Approve Financing for 2019 Capital Additions
Staff Recommendation for Approval

Dear Ms. Howland:

On October 18, 2019, Hampstead Area Water Company, Inc. (HAWC or Company) submitted a petition (petition) for authority to issue long-term debt to secure a 0.00 percent APR loan to purchase a new 2019 Ford F-250XL work truck with an 8-foot utility body for \$42,701. Based upon Staff Discovery, the Company filed an amended petition on December 16, 2019, reflecting the correct purchase price of \$47,201 with the same 0.00 percent APR loan. The loan to purchase the vehicle will be issued from Ford Motor Credit Company (FMCC). The direct pre-filed testimony of Stephen P. St. Cyr of St. Cyr and Associates, a consultant to the Company, accompanied the petition. In its petition, the Company requested approval on or before October 31, 2019, due to its concern that the older vehicle being replaced might not be serviceable for a heavy workload much longer. However, the Company provided no indication the purchase price or financing terms would change after October 31, 2019. After review, Staff recommends the Commission approve HAWC's petition.

Under RSA 369:1, public utilities engaged in business in the state of NH 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 ensure 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.

The Company describes that the new truck will take over the duties of an older truck, a 2010 GMC 2500 with approximately 250,000 miles. The Company explained that the older GMC 2500 can no longer perform its assigned duties and is expected to be assigned lighter duties. The Company indicated that it will retain the older GMC 2500 until the Company determines that it is no longer cost effective to repair that vehicle. At that time, it is understood the Company will consider disposal options and properly record the salvage value, if any, in their books and records.

The Company stated it obtained a vehicle quote from one other dealership; it provided that information to Staff. The Company indicated that based on input from its fleet manager, its preferred financing terms, and given that both vehicle dealerships offered standard commercial rates through FMCC, the Company decided to purchase the vehicle from Bonnell Motors, Inc. (Bonnell). As explained by Mr. St. Cyr, the Company was presented with, and considered, three different purchasing options from Bonnell. After reviewing those options, the Company decided that accepting a 6-year loan with 0.00 percent APR in lieu of any available dealer incentives provided the best option of balancing the Company's preservation of internal cash while obtaining the lowest possible cost. The three options considered by the Company are explained below.

Specifically, the Company indicated that the first option presented by Bonnell, "option 1", presented a purchase price of \$42,701, through the use of dealer incentives, but that it required obtaining a loan from FMCC at 7.44 percent APR for 5 years. Staff calculated that this would have resulted in a total vehicle cost of \$51,265 (\$42,701 + \$8,564 of interest).

The Company further indicated that the second option presented from Bonnell, "option 2", presented a purchase price of \$43,701, again through the use of dealer incentives, but that it would have required the Company to pay that entire amount up front. The Company argued that by financing, rather than paying cash up front, it is better able to align cash flows with the anticipated service-life of the vehicle. In addition, the Company asserts that it needs to preserve its internal cash as it heads into the traditionally lower-revenue winter season for water utilities. Therefore, "option 2" would have likely required use of the Company's recently approved line of credit.¹ The interest on the line of credit is charged monthly at the prime rate as published in the Wall Street Journal. At the time of the filing, this was 5%. Staff calculated that based upon a typical 5 year payment schedule, the line of credit would have resulted in a total vehicle cost of \$49,482 (\$43,701 + \$5,781 of interest).

Lastly, the Company indicated that the third option presented by Bonnell, "option 3," entailed accepting a 0.00 percent APR loan in lieu of any dealer incentives. This option reduces the purchase price, achieves the Company's goals of preserving internal cash and aligning cash flow, and also simultaneously results in the lowest total vehicle cost of all presented options, \$47,201 (\$47,201 + \$0 of interest). As stated, the Company elected to pursue option 3. Staff calculated that option 3's effect on the Company's revenue requirement would be a 0.22 percent increase. Staff deems this as negligible.

The Company asserts that the Commission should approve the financing because it is in the best interest of the Company and its customers. The financing will allow the Company to purchase a new vehicle to take over the duties of an older truck, which can no longer perform its duties in the

¹ See *Hampstead Area Water Co. Inc.*, Order No. 26,218 (February 1, 2019) (Docket No. DW 18-147) (approving the Company's request to obtain a line of credit with Pentucket Bank).

long term. Lastly, the Company expects to close on the loan as soon as the Commission makes a determination.

Staff reviewed the Company's filing and discovery responses, and believes the Company has demonstrated that the terms and conditions are reasonable. Further, when looking beyond the terms of the financing, the proposed use of the funds contributes to the Company's ability to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers, as required by RSA 374:1. Because the proposed use of the funds is to satisfy the Company's duties and legal obligations to serve its customers, Staff therefore recommends the Commission find the financing consistent with the public good pursuant to RSA 369:1, and approve the request.

Thank you for your assistance and attention regarding this matter. If you have any questions, do not hesitate to contact me.

Respectfully,

A handwritten signature in black ink, appearing to read 'Anthony J. Leone', with a stylized flourish at the end.

Anthony J. Leone
Utility Analyst

cc: Service List



HAMPSTEAD AREA

WATER COMPANY, INC

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936
www.hampsteadwater.com

November 18, 2019

Christopher R. Tuomala, Esq.
NH Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

RE: Hampstead Area Water Company, Inc.
DW 19-176 – Answers to Staff Data Requests - Set

Dear Attorney Tuomala:

Pursuant to NH Code PUC 203.09, please find attached, the Company's Answers to Staff Data Requests-Set1, regarding the above referenced docket.

If you have any questions, please don't hesitate to contact us.

Very truly yours,


Anthony Augeri, Esq.
General Counsel

AA/ljs

enclosures

cc: DW 19-176 Service list electronically

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-1**

**Date of Response: 11/18/19
Witness: Stephen P. St. Cyr**

Staff 1-1

References: Petition, Page 1, Paragraph 2; Petition Exhibit 1; and Direct Testimony of Stephen P. St. Cyr (SPS Testimony), Page 2, Lines 2 – 4: The petition states the Company requests to purchase a 2019 Ford F250XL at the price of \$42,702 from Ford Motor Credit at 0%. However, the testimony from Mr. St. Cyr indicates the purchase price and terms are \$47,201 at 0% from Ford Motor Credit. Please reconcile and explain.

Response 1-1:

The petition should reflect a purchase price and financing amount of \$47,201 as indicated in the testimony of Stephen P. St. Cyr.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-2**

**Date of Response: 11/18/19
Witness: Charles Lanza and
John Sullivan**

Staff 1-2

Reference: SPS Testimony, Page 2, Lines 10 – 21:

- a) Did the Company consider vehicle purchase and financing offers at other dealerships? Please explain.
- b) Please explain why it appears the Company is choosing to purchase the vehicle from Bonnell Motors, Inc., as indicated in Exhibit 1.
- c) When considering the three pricing offers described, did the Company also factor into its analysis the other financing costs indicated on Schedule SPS-7 totaling \$5,000? Please explain.

Response 1-2:

- a) Two vehicles from separate dealerships were considered. See attached second quote from McFarland Ford.
- b) This was based on input from our fleet manager and preferred financing terms.
- c) The Company does not have the available cash to purchase this vehicle. The purchase needs to be financed. The costs on SPS-7 are the costs related to the PUC financing petition necessary to acquire the vehicle by a loan.

From: Jeff Caillouette <JCaillouette@LewisBuilders.com>

Sent: Thursday, August 15, 2019 10:08 AM

To: Charlie Lanza <Charlie@HampsteadWater.com>

Subject: Fwd: 2019 F250 utility body

Jeff Caillouette,
Fleet Manager at Lewis Equipment .Co
Cell [\(603\)-560-8453](tel:603-560-8453)
Office [\(603\)-362-5333](tel:603-362-5333)
[54 Sawyer Ave](#)
[Atkinson NH 03811](#)

Begin forwarded message:

From: Eric Cummings <ecummings@mcfarlandford.com>

Date: August 15, 2019 at 10:03:57 AM EDT

To: "Jeff Caillouette (JCaillouette@LewisBuilders.com)" <JCaillouette@LewisBuilders.com>

Subject: 2019 F250 utility body

Price on 2019 F250 service truck, 8' reading ll svc body
\$44856

If you finance with FMCC, \$43856, standard commercial rates apply

Thank You!

Eric Cummings

Business Manager/Commercial Vehicle Manager

McFarland Ford

603-658-9015(Direct) 603-772-1144(Fax)

SENIOR Certified
AFIP F & I Professional



Go to <https://www.facebook.com/mcfarlandtrucks/> to see all commercial truck special offers, inventory and free stuff!

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-3**

**Date of Response: 11/18/19
Witness: Charles Lanza**

Staff 1-3

References: Petition, Page 1-2 Paragraph 4; SPS Testimony, Page 2, Lines 4 - 5: What is the make and model of the 2010 vehicle that will be replaced and reassigned to lighter duty at the Company?

Response 1-3:

It is a 2010 GMC 2500.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-4**

**Date of Response: 11/18/19
Witness: John Sullivan**

Staff 1-4

Reference: SPS Testimony, Page 6, Lines 18 – 19: Mr. St. Cyr states the Company is requesting a Commission order “no later than October 31, 2019” for a petition filed on October 18, 2019.

- a) Please explain the reason for this specific request for a Commission order by October 31.
- b) Are the purchase incentives associated with the proposed vehicle purchase due to expire on October 31, 2019? Please explain.
- c) If a Commission order is issued subsequent to October 31, will that materially affect the vehicle purchase and financing as described in the Company’s filing? Please explain.

Response 1-4:

- a) The vehicle that is being replaced is old and may not last much longer in daily use. We needed a quick response to this petition in case the vehicle died before PUC approval could be finalized.
- b) No – see response 1-4a.
- c) No – see response 1-4a.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-5**

**Date of Response: 11/18/19
Witness: John Sullivan and
Charles Lanza**

Staff 1-5

References: Petition, Pages 1-2, Paragraph 4; Schedule SPS – 4, J/E 2: This journal entry reflects the retirement of the 2010 vehicle replaced by the new vehicle.

- a) On page 2 of the Company's petition in paragraph 4, it states the older truck will remain in use by the Company but will be relegated to lighter duties. That statement indicates that the replaced vehicle will not necessarily be retired. Please explain.
- b) If it is, in fact, the intention of the Company to retire the replaced vehicle, how does the Company anticipate disposing of that vehicle, i.e., sale, scrap, spare parts, etc.? Please explain.

Response 1-5:

- a) We may keep the vehicle however the vehicle is in poor condition and it is likely that it will not last long if it remains a daily use fleet vehicle.
- b) This truck is in poor shape and as would be relegated to lighter duty until such time that it is determined that it's not cost effective to repair the vehicle.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-6**

**Date of Response: 11/18/19
Witness: Charles Lanza**

Staff 1-6

Per PUC 609.03(c)(1)- please provide a copy of the Purchase and Sale Agreement with Bonnell Motors, Inc.

Response 1-6:

We have not signed a P & S at this time.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-7**

**Date of Response: 11/18/19
Witness: John Sullivan**

Staff 1-7

Please provide a list of vehicles the Company currently owns including year, make, model, type, original cost, approximate current mileage, condition (excellent, good, fair , poor) anticipated replacement date, and whether the vehicle will be retired after replacement, or retained for lighter duty.

Response 1-7:

See attached spreadsheet.

**HAWC
VEHICLES
11/13/19**

		Cost	Mileage	Condition	Anticipated Replacement Date	To be Retired or Retained?
U2	2007 Ford F150 4x4 w/ Utility Body	25,050	210,958	Poor	2019/2020	To be sold as salvage.
U3	2012 Chevy Silverado 4x4 w/ Utility Body	34,479	131,140	Fair	2020/2021	Will be the next to be replaced. Company reviews wear and tear, year, and mileage and need for repairs in deciding whether to retain or replace vehicles.
U14	2010 GMC Sierra 4x4 w/ Utility Body	33,168	225,849	Poor	2019/2020	Retained but no longer used for daily use, only used for occasional light duty
U4	2016 Ford F250 4x4 w/ Utility Body	39,174	39,700	Good	2023	Company reviews wear and tear, year, and mileage and need for repairs in deciding whether to retain or replace vehicles.
U15	2017 Ford F250 4x4 w/ Utility Body	41,159	40,336	Good	2024	Company reviews wear and tear, year, and mileage and need for repairs in deciding whether to retain or replace vehicles.
U16	2019 Ford F250 4x4 w/ Utility Body	41,500	15,097	Good	2026	Company reviews wear and tear, year, and mileage and need for repairs in deciding whether to retain or replace vehicles.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-8**

**Date of Response: 11/18/19
Witness: John Sullivan**

Staff 1-8

Reference: SPS Testimony, Page 2, Lines 13 - 21: What are the other cash requirements of the Company? Please provide an analysis detailing the impact to the Company's cash position if it were to purchase the vehicle using cash rather than financing.

Response 1-8:

The Company is heading into the winter months when cash flow is traditionally weak. The Company has also informed staff that it will be filing a rate case in 2020. Among reasons for the rate case is that the Company has not earned its approved rate of return, which has reduced cash flow.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-9**

**Date of Response: 11/18/19
Witness: John Sullivan**

Staff 1-9

Should a Commission order approving the financing not be issued by the end of October, what is the absolute last date that a Commission order may be issued in order for the Company's financed purchase under the contemplated terms to still be in compliance with RSA 369?

Response 1-9:

The request for a quick response from the PUC is mostly because the existing vehicle requires immediate replacement. It is in poor condition from being used in the company's daily workload fleet and is ten years old and has high mileage. It may last 6 months or it may last 1 week.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-10**

**Date of Response: 11/18/19
Witness: John Sullivan**

Staff 1-10

If the Commission does not approve the requested debt, how does the Company intend to finance the truck?

Response 1-10:

The Company will review other options it may have if the PUC does not approve the request.

**DW 19-176
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION TO APPROVE FINANCING
ANSWERS TO STAFF DISCOVERY REQUEST – SET 1
ANSWERS**

**Date request received: 11/06/19
Staff 1-11**

**Date of Response: 11/18/19
Witness: Stephen P. St. Cyr**

Staff 1-11

Please further explain the effect on customer rates if the Commission were to approve the financing.

Response 1-11:

See attached calculation of additional revenue requirement.

DW 19-176 Petion to Approve Financing of 2019 Ford F250 XL pickup truck

Revenue Requirement associated with 2019 Ford F250 XL pickup truck

RATE BASE	Amount
2019 Ford F250 XL pickup truck purchase price	\$ 47,201
Less: Accumulated Depreciation	<u>3,371</u>
NET PLANT IN SERVICE	\$ 43,830
Contribution in Aid of Construction	-
Plus: Accumulated Amortization of CIAC	<u>-</u>
NET PLANT IN RATE BASE	\$ 43,830
Cash Working Capital	<u>-</u>
TOTAL RATE BASE	<u>\$ 43,830</u>
Return on Additional Plant @ 0.00	\$ -
O&M Expenses	
Depreciation Expense	\$ 3,371
Amortization of CIAC	-
State Utility Property Taxes	-
Local Property Taxes	-
Federal Income Taxes	-
State Business Enterprise Taxes	<u>-</u>
Operating Expenses	<u>\$ 3,371</u>
Additional Revenue Requirement	<u>\$ 3,371</u>
2018 Metered Sales to General Customers	<u>\$ 1,887,101</u>
% Increase assoicated with Additional Revenue Requirement	<u>0.18%</u>

SPSt. Cyr
11/15/2019

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