

**DW 05-051**

**HAMPSTEAD AREA WATER COMPANY, INC.**

**Petition for Approval to Operate Well Inside of Franchise Area, Approval of Financing,  
Approval of Acquisition of Assets and Approval of Permanent Rates**

**Order *Nisi* Granting Approval of Financing**

**ORDER NO. 24,560**

**December 9, 2005**

**I. BACKGROUND**

Hampstead Area Water Company, Inc. (HAWC) is a public utility as defined in RSA 362:2 and 362:4 which currently serves approximately 2,500 customers in several communities throughout southeastern New Hampshire. On March 18, 2005, HAWC filed with the New Hampshire Public Utilities Commission (Commission) a petition relative to a new water system serving the Eastwood Place housing development on Forrest Street in the Town of Hampstead. Eastwood Place is a fully built-out residential cluster development consisting of 23 residences located within HAWC's existing franchise territory.<sup>1</sup> The development is owned by Piccadilly Development, LLC (Piccadilly).

HAWC requests authority to: (1) operate a well within HAWC's current franchise area in Hampstead, (2) acquire the assets of the water system serving the Eastwood Place development, (3) issue debt in order to finance the acquisition of the water system assets, and (4) charge permanent rates to the customers served by the water system. In support of the petition,

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<sup>1</sup> The Commission previously approved HAWC's franchise for this area in *Woodland Pond Water Company, Inc.*, 73 NH PUC 26 (1988). Specifically, the Commission approved a franchise area encompassing approximately 701 acres bounded by Hampstead-Danville town line, Hampstead-Kingston town line, Route 111, Route 121-A, Danville Road and East Main Street. Forrest Street is within this franchise area. In *Hampstead Area Water Company, Inc.*, 75 NH PUC 109 (1990), the Commission approved HAWC's acquisition of the Woodland Pond franchise.

HAWC filed schedules, deeds, notes, and the written testimony of Peter A. Lewis, John Sullivan, Dean Howard, and Oliver Poirier.

We note that since HAWC holds the franchise rights to this area, it does not need additional Commission approval to operate a well in the territory or to apply the existing rates there. Accordingly, we do not address HAWC's request for authority to operate a well within the franchise and to charge permanent rates. We also note that the request to acquire assets is subsumed within the request seeking approval of the corresponding financing.

On June 24, 2003, Piccadilly requested HAWC assume ownership and operation of the water system and gave HAWC a Water Rights and Easement Deed. This deed was recorded at the Rockingham County Registry of Deeds as Book 4068, Page 1363. On July 30, 2003, the New Hampshire Department of Environmental Services (NH DES) issued a letter to HAWC indicating its approval of the Eastwood Place well, conditioned upon HAWC setting aside adequate space within the associated pump house in order to accommodate the potential installation of radon removal equipment.

In August 2003, HAWC began supplying water service to the development and, in October 2003, HAWC began billing the Eastwood Place customers the Hampstead core rate in effect for the area. That rate is \$7.17 per quarter plus \$1.99 per 100 cubic feet of water consumed.

On October 25, 2004, HAWC and Piccadilly entered into another agreement whereby HAWC agreed to purchase certain assets of the Eastwood Place water system from Piccadilly at a price of \$1,000 per residential unit "hook-up" for a total purchase price of \$23,000. According to the pre-filed testimony of John Sullivan, the remaining original cost of

construction of the water system above the agreed-upon purchase price is to be considered contributed by Piccadilly and treated by HAWC for ratemaking purposes as Contributions in Aid of Construction (CIAC).

On October 25, 2004, HAWC executed a promissory note whereby it promised to pay Piccadilly the sum of \$23,000, plus interest. The terms of the note call for HAWC to pay one-tenth of the total principal on each of the next 10 anniversary dates of the note plus interest at 2.25 percent above the prime rate as published in the *Wall Street Journal* on the last business day of the preceding calendar year. All outstanding principal and interest are due and payable by the tenth anniversary date of the note. The initial interest rate of the note is 7.50 percent.

On March 16, 2005, the Commission received correspondence from the Hampstead Board of Selectmen indicating they had received notification of the proposed petition regarding the Eastwood Place water system. No subsequent correspondence has been received from the Hampstead Board of Selectmen relative to this docket.

On June 10, 2005, HAWC filed revised petition exhibits to reflect changes in the construction cost of the system: *See* Exhibit 5, Project Cost Schedule; Exhibit 7, Bill of Sale of Water Utility Assets; Exhibit 9, Continuing Property Records; Exhibit 13, Pre-filed testimony of John Sullivan.

On December 5, 2005, Staff filed a letter recommending the Commission approve HAWC's petition. Staff stated that it had thoroughly reviewed the filing and had conducted three rounds of discovery concerning HAWC's petition. In addition, Staff stated that the Commission's Audit Staff had reviewed HAWC's Continuing Property Records (CPRs) for the Eastwood Place system and had issued a final audit report, dated June 20, 2005.

## II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities 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.” This standard involves looking beyond actual terms of the proposed financing to the use of the proceeds of the loan and the effect on rates. See *Appeal of Easton*, 125 N.H. 205, 213 (1984).

In connection with the instant financing request, HAWC intends to purchase the Eastwood Place water system assets from Piccadilly. The assets include a well, pumping and treatment equipment, tanks, mains and services in addition to the appurtenant structures. Pursuant to the petition, the purchase price is calculated by multiplying the number of customers (23) by \$1,000 per service connection, or \$23,000. HAWC proposes to finance this \$23,000 amount. We find that the proposed purchase price is reasonable, especially in light of the fact that the original construction cost for these assets is \$149,172. The difference between the actual cost of construction and the purchase price, \$126,172, is being treated 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 our Order No. 24,362 (August 19, 2004), in Docket No. 02-128, wherein we approved this methodology as being consistent with the public good. Lastly, we encourage utility ownership of physical assets to ensure that water utilities have control over those assets and can thus better provide the safe and adequate water service required by RSA 374:1. HAWC’s purchase of the Eastwood Place water system assets furthers this Commission policy.

We next review the reasonableness of the proposed financing rate and its impact upon ratepayers. According to the petition and supporting documents, the interest rate will be calculated based on the prime rate published in the *Wall Street Journal* on the last business day of the calendar year preceding that particular anniversary date, plus a margin of 2.25 percent. The initial interest rate is 7.50 percent. HAWC does not propose any change in its permanent rates as a result of the proposed financing. The financing terms require HAWC to annually pay Piccadilly one-tenth of the total principal (\$2,300) over the 10 anniversary dates of the note. We note that in the past, we have approved interest rates for small water companies where the margin has ranged from 1.5 to 2.75 percent over the applicable index.<sup>2</sup> In Docket No. DW 05-070, we approved an interest rate for HAWC that was 2.25 percent above prime and the margin for the instant financing is the same. *Hampstead Area Water Company, Inc.*, Order No. 24,545 (November 18, 2005). Based on our review of the record and discussion above, we agree that a 7.50 percent interest rate on the \$23,000 loan is reasonable and consistent with the public good. Accordingly, we approve the proposed financing.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that Hampstead Area Water Company, Inc.'s request to finance the purchase of the Eastwood Place water system assets with Piccadilly Development, LLC under the terms and conditions stated in HAWC's petition, is approved; and it is

**FURTHER ORDERED**, that HAWC 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 December 19,

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<sup>2</sup> *Lakes Region Water Company, Inc.*, Order No. 24,401 (November 19, 2004), 3% over FHLBB rate; *Tilton and Northfield Aqueduct Company*, Order No. 24,169 (May 9, 2003), 2.75% over FHLBB rate; *West Swanzey Water Company*, Order No. 24,206, (September 5, 2003), 1.5% over prime rate.

2005 and to be documented by affidavit filed with this office on or before January 9, 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 December 27, 2005 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 January 3, 2006; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective January 9, 2006, unless HAWC fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this ninth day of December 2005.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Michael D. Harrington  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary