

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 07-133

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Franchise Expansion, Acquisition of Assets, Financing, and Rates

Order *Nisi* Granting Petition

ORDER NO. 24,831

March 14, 2008

I. BACKGROUND

Hampstead Area Water Company, Inc. (HAWC) is a regulated public utility serving approximately 2,900 customers in various communities throughout southeastern New Hampshire. On December 19, 2007, HAWC filed a petition for authority to provide water service to the Coopers Grove Cluster Subdivision (Coopers Grove) in the Town of Kingston. Coopers Grove is a proposed 18 dwelling-unit development owned by Shribco Realty Two, LLC (Shribco). Lewis Builders Development, Inc. (LBDI), an affiliate of HAWC, will construct the majority of the Coopers Grove water system.

HAWC seeks to: 1) expand its franchise area to include Coopers Grove and surrounding land; 2) acquire the water system assets serving Coopers Grove; 3) issue debt to finance the acquisition of the water system assets; and 4) charge rates to customers served in Coopers Grove. In support of its petition, HAWC submitted copies of agreements, correspondence and schedules, as well as pre-filed testimony. HAWC supplied a copy of an August 6, 2007 letter from the New Hampshire Department of Environmental Services (NHDES) approving HAWC's proposal to construct wells in Coopers Grove.

HAWC also filed a copy of an executed Water Rights Deed and Easement between Shribco and HAWC, dated December 5, 2007, and a copy of an executed agreement to purchase the community water system, dated November 20, 2007. HAWC will acquire wells, pumping and treatment equipment, transmission and distribution mains, supply mains and services. According to HAWC and Shribco, the purchase price will be determined by multiplying the number of residential units, 18, by \$1,000 per dwelling “hook-up”, or \$18,000. This is the amount HAWC proposes to finance. The cost to build the water system is estimated at \$247,200. HAWC plans to treat the difference between \$247,200 construction costs and the \$18,000 purchase price, or \$229,200, as Contributions in Aid of Construction (CIAC) and will not be in rate base.

HAWC’s proposed franchise expansion, which includes Coopers Grove, is described as follows:

Beginning at a point at the intersection of the Northwest sideline of the easement for the Boston & Maine Railroad and the Kingston/East Kingston Town Line; thence turning and running Northerly along the Town Line to a point on the Southerly shore of Powwow Pond; thence turning and running Westerly along the shore of Powwow Pond to a point Fifty and 00/100th (50.00’) feet Northwest of the Northwesterly sideline of Babscott Lane; thence turning and running Southwesterly parallel to and along a line Fifty and 00/100th (50.00’) feet Northwest of the Northwesterly sideline of Babscott Lane to a point Fifty and 00/100th (50.00’) feet opposite of the Southwest corner of the intersection of Babscott Lane and New Boston Road; thence continuing in the same direction Fifty and 00/100th (50.00’) feet to a point; thence turning and running perpendicular Southeasterly to a point; thence turning and running Southeasterly parallel to and along a line Fifty and 00/100th (50.00’) feet Southwest of New Boston Road to a point at the Northwest sideline of the easement for the Boston & Maine Railroad; thence turning and running along the Northwest sideline of the easement for the Boston & Maine Railroad to the point of beginning.

Construction of the Coopers Grove system is anticipated to be completed by April 2008 with initial service to be provided by June 2008. HAWC requested that its consolidated rate currently in effect be applied to the proposed franchise expansion area. This rate consists of a \$25.00 quarterly charge and a \$3.71 per 100 cubic foot consumption charge.

HAWC seeks to finance the purchase of the water system assets through a promissory note with Shribco in the amount of \$18,000. The terms call for HAWC to make two hundred and forty (240) monthly payments of principal and interest over a twenty (20) year term. The initial interest rate of the note is proposed to be established at 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the calendar quarter preceding Commission approval of the financing. The interest rate will be adjusted every three years on the anniversary date of the execution of the note.

On February 21, 2008, the Commission received correspondence from the Kingston Board of Selectmen indicating they had received notification of the proposed petition regarding the Coopers Grove water system.

On March 12, 2008, the Commission Staff (Staff) submitted a letter recommending the Commission approve HAWC's petition. Staff estimated HAWC's initial interest rate to be 9.50%, given the Prime Rate in effect as of December 31, 2007. Staff concurred with HAWC's filing that \$18,000 ought to be allowed as rate base in addition to the subsequent cost of customer meters. As such, Staff indicated that \$229,200 of the estimated cost of construction for the water system totaling \$247,200 ought to be treated as CIAC.

II. COMMISSION ANALYSIS

Pursuant to RSA 374:22, “[n]o person or business entity shall commence business as a public utility within this state...without first having obtained the permission and approval of the commission.” The Commission shall grant requests for franchise authority and allow an entity to engage in the business of a public utility when it finds, after due hearing, that the exercise of the right, privilege, or franchise is in the public good. RSA 374:26. In determining whether a franchise is in the public good, the Commission assesses the financial, managerial and technical expertise of the petitioner. See, *Lower Bartlett Water Precinct*, 85 NH PUC 635, 641 (2000).

HAWC and its predecessor, Walnut Ridge, have been operating water systems in New Hampshire for approximately 40 years. See, *Walnut Ridge Water Company, Inc.*, 62 NH PUC 190 (1977). HAWC previously demonstrated the requisite financial, managerial and technical expertise to operate its various systems and we are aware of no evidence that HAWC now lacks that expertise.¹ With respect to the requirements of RSA 374:22, III relating to suitability and availability of water, we conclude, based on the August 6, 2007 letter from NH DES, that HAWC has satisfied RSA 374:22, III. Accordingly, we find that expanding HAWC’s franchise territory to include the area proposed is reasonable and we will approve HAWC’s request to expand its franchise within the Town of Kingston.

Regarding financing, 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 public good consideration involves looking beyond actual terms of the proposed

¹ *Walnut Ridge Water Company, Inc.*, 62 NH PUC 190 (1977); *Bryant Woods Water Company, Inc.*, 73 NH PUC 465 (1988), *Walnut Ridge Water Company, Inc. and Bryant Woods Water Company, Inc.*, 75 NH PUC 740 (1990), *Hampstead Area Water Company, Inc.*, 87 NH PUC 259 (2002).

financing to the use of the proceeds of those funds and the effect on rates to ensure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

HAWC intends to use the proceeds of the financing to purchase the Coopers Grove water system assets as described above. HAWC's petition proposes a purchase price of \$1,000 per service connection, or \$18,000, from Shribco. The methodology used in determining the purchase price is consistent with previous approved financings and we find the proposed purchase price to be reasonable, especially in light of the estimated construction cost for these assets of \$247,200. The difference between the cost of construction and the proposed purchase price will be recorded by HAWC as CIAC and will be excluded from rate base in subsequent rate proceedings. Accordingly, we find that HAWC's proposed purchase of the Coopers Grove water system assets in the amount of \$18,000 is in the public good and we will approve that acquisition.

Having found that the intended use of the proposed financing for the purchase of the water system assets is in the public good, we turn our attention to the proposed terms of the financing and their impact on customer rates. Those terms require that HAWC pay Shribco the sum of \$18,000 over a twenty (20) year term in two hundred forty (240) monthly installments of principal and interest. The initial interest rate will be established at 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the calendar quarter preceding our approval of this financing. The Prime Rate in effect on December 31, 2007 was 7.25%; therefore, the initial interest rate of this financing will be 9.50%. The terms of the financing are consistent with other financings recently approved for HAWC and we conclude that these terms will not have an adverse impact on future customer rates. Based on our review of the record and

discussion above, we find the proposed financing for the purchase of the assets of the Coopers Grove water system assets in the amount of \$18,000 from Shribco are consistent with the public good and we approve the financing.

Finally, we address HAWC's request for approval to charge the Coopers Grove customers HAWC's current consolidated rate. We approved consolidated rates for HAWC in the amount of \$25.00 per quarter and \$3.71 per 100 cubic feet of water consumed. See *Hampstead Area Water Company, Inc.*, Order No. 24,734 (March 23, 2007). The Coopers Grove water system is similar in nature to other systems operated by HAWC at the time these rates were approved and thus we find the imposition of HAWC's current consolidated rate to the customers of Coopers Grove to be just and reasonable.

Based upon the foregoing, it is hereby

ORDERED NISI, that Hampstead Area Water Company, Inc.'s request to expand its franchise to serve customers in the Coopers Grove development and surrounding area as described above is approved; and it is

FURTHER ORDERED, that subject to the effective date below, Hampstead Area Water Company, Inc.'s request to finance the purchase of the Coopers Grove water system assets from Shribco Realty Two, LLC under the terms and conditions stated in Hampstead Area Water Company, Inc.'s petition, is approved; and it is

FURTHER ORDERED, that Hampstead Area Water Company, Inc. is authorized to charge Coopers Grove customers its present consolidated rate in the amount of \$25.00 per quarter and \$3.71 per 100 cubic feet of water consumed on a service rendered basis effective on the date when service is first established in that system; and it is

FURTHER ORDERED, that within 30 days from the execution of the financing with Shribco Realty Two, LLC, Hampstead Area Water Company, Inc. shall file a copy of the executed promissory note as well as any underlying documentation with the Commission; 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 and shall send a copy of same to the Kingston town clerk by first class mail, such actions to occur no later than March 24, 2008 and to be documented by affidavit filed with this office on or before April 14, 2008; 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 March 31, 2008 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 7, 2008; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 14, 2008, 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 14, 2008, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this fourteenth day of March, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary