

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 18-147

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Approval of Financing

Order Authorizing Line of Credit

ORDER NO. 26,218

February 1, 2019

In this order, the Commission approves a request of Hampstead Area Water Company, Inc., to borrow up to \$1 million in the form of a working line of credit.

I. PROCEDURAL HISTORY

On September 21, 2018, Hampstead Area Water Company, Inc. (HAWC or the Company), filed a petition, pursuant to RSA 369:1, seeking authority to obtain a \$1,000,000 revolving working line of credit (LOC) with Pentucket Bank. According to the Company's filing, the proceeds of the LOC, if approved, will be used to improve the Company's various water systems and distribution lines, and other short-term working-capital needs. The filing included the testimony of John Sullivan, Controller for HAWC, and Steven P. St Cyr, HAWC's consultant.

The Office of the Consumer Advocate (OCA) filed its letter of participation on September 26, 2018. Commission Staff (Staff) followed with its recommendation on November 14, 2018. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-147.html>.

II. POSITIONS

A. HAWC

HAWC indicated that the LOC would be payable on demand with a variable interest rate equal to the prime rate, as published in the Wall Street Journal. The LOC would be secured by an interest in the Company's assets and guaranteed by Christine Lewis Morse, the sole shareholder and Vice President of HAWC. Pentucket Bank agreed to waive any annual fee and to charge only interest on funds advanced and outstanding. The primary reason for the LOC is to increase financial flexibility and fund minor capital additions while reducing the frequency of Commission financing approvals.

HAWC expects the LOC to result in increased productivity and customer service. The Company stated the LOC funds would be used primarily for routine capital projects: rebuilding and replacing pump stations, pumping equipment, mains, services, and meters; drilling wells; purchasing vehicles; and other projects. HAWC stated that it would seek rate recovery when the sum of the investments in plant start reducing its actual rate of return.

B. Staff

After its review of the Company's petition, testimony, and data responses, Staff noted that, absent an improvement in HAWC's capital structure, the proposed LOC would increase HAWC's ratio of debt to equity. Based on HAWC's 2017 Annual Report, if the Company borrowed the full \$1 million available under the LOC and used it to make capital investments without any additional equity investment, the Company's proportion of debt in its capital structure would increase from 61.8 percent to 67 percent, and its equity would decrease accordingly from 38.2 percent to 33 percent. According to Staff, that would move the Company away from the balanced capital structure the Commission expects. HAWC recently received a rate increase in DW 17-118 and the Company's shareholder has demonstrated a prior willingness

to make equity infusions into the Company, when necessary. *See Hampstead Area Water Company, Inc.*, Order No. 26,165 (August 31, 2018) (granting rate increase). Given these facts, Staff suggested close monitoring of HAWC's capital structure by the Commission in the future.

Staff asserted that HAWC's proposed LOC is consistent with the public good in that it would enable the Company to more efficiently serve its customer needs. Staff found the terms of the proposed LOC favorable and noted that HAWC demonstrated that 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. Accordingly, Staff recommended Commission approval.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell its stocks, bonds, notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission will conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *See Appeal of Easton*, 125 N.H. 205, 211 (1984).

The rigor of an *Easton* inquiry varies depending on the circumstances of the request. "[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)).

A routine request is one that will have “no discernable impact on rates or deleterious effect on capitalization, and in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13. A routine request calls for a more limited examination of whether the “use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds.” *Id.* at 16.

We find HAWC’s request for the proposed LOC to be routine. The proposal will not have a discernable impact on rates at this time. In addition, the capital investments to be facilitated by the financing appear to be made in the ordinary course of HAWC’s business. As such, we engage in a limited *Easton* review.

HAWC’s filing and testimony includes sufficient information about the proposed use of the financing. The funds will support rebuilding and replacement of pump stations, the drilling of wells, the replacement of mains and services, the replacement of meters, vehicle purchases and other projects. Those projects are all routine and necessary to provide safe and adequate water service.

We share Staff’s concern, however, with the potential effect of additional borrowing on HAWC’s capital structure. As we recently observed:

we find the stipulated pro forma capital structure of 55 percent debt and 45 percent equity represents a reasonable capital structure for HAWC. A balanced capital structure proves more stable and beneficial to both owner and ratepayer. We expect all utilities to strive for that capital balance. We expect that the increase in rates will enable HAWC to increase its equity investment, and move it closer to an actual 55 percent debt and 45 percent equity structure, before its next rate case filing.

Hampstead Area Water Company, Inc., Order No. 26,195 (November 28, 2018) at 7 (order approving a return on equity for HAWC). Thus, as the Company expends the proceeds of this financing, particularly on capital investments, we expect the Company’s shareholder to make meaningful and appropriate equity infusions to begin to balance the Company’s capital structure,

as mandated in Order No. 26,195. We direct Staff to review the Company's annual financial filings to confirm that the capital structure is improving. With that provision, we find the terms of the LOC reasonable and the financing consistent with the public good, and we approve the petition.

Our approval of the financing does not foreclose or limit our review in a future rate case of the prudence, use, and usefulness of any specific project directly or indirectly financed by these transactions. The Commission and Staff also retain the authority under RSA 374:4 to keep informed of HAWC's use of the financing, independently and apart from any RSA 378:28 review.

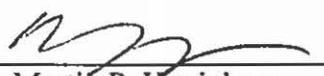
Based upon the foregoing, it is hereby

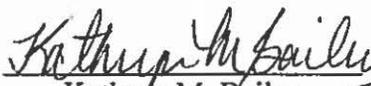
ORDERED, that Hampstead Area Water Company's requested financing on the terms described in its petition is APPROVED; and it is

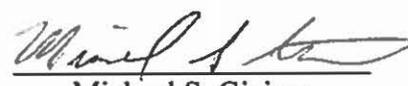
FURTHER ORDERED, that HAWC shall report to the Commission the actual terms of the financing within fifteen days of closing on the line of credit; and it is;

FURTHER ORDERED, that Staff will review the Company's annual financial filings to ensure HAWC improves its capital structure.

By order of the Public Utilities Commission of New Hampshire this first day of February, 2019.


Martin P. Honigberg
Chairman


Kathryn M. Bailey
Commissioner


Michael S. Giaimo
Commissioner

Attested by:


Debra A. Howland
Executive Director