

STATE OF NEW HAMPSHIRE  
THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY, INC

DW 09-000

PETITION FOR APPROVAL OF FINANCING

The Petitioner, Hampstead Area Water Company, Inc. (the Company), respectively petitions the N.H. Public Utilities Commission (Commission) for approval of financing for capital additions to the System assets, and for replacement financing with TD Bank, N.A. In support of this Petition, the Company says:

1. The Company is presently franchised in most areas of Hampstead and Atkinson, New Hampshire, and has franchised satellite systems in various towns in Rockingham County (see Schedule A, attached).
2. That for the first financing item, the Company is seeking financing for the various capital additions, including replacement meters, pumps, and sampling station upgrades, as listed on Exhibit 1.
3. That the Company will be borrowing \$94,232.09 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25% over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 2.
4. That for the second item of financing, the Company will be refinancing a significant portion of its long term debt owed to Lewis Builders, Inc. and Lewis Builders Development, Inc., both affiliated companies. As per the attached Term Sheet from TD Bank, N.A., (Exhibit 3) the refinancing, initially requested for \$1,350,000, will be for \$1,450,000 with a Five (5) year maturity over a Twenty (20) year amortization period and 280 basis points above the Five (5) Federal Home Loan Bank Classic Advance Rate

(6.26% as of March 16, 2009). The refinancing will replace a number of Intercompany Notes. (See Exhibit 4).

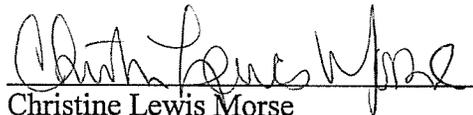
5. In support of the capital additions financing request, the Company proposes that the financing will:
  - a. Provide the necessary cash flow for these system improvements.
  - b. Pay for the expenditures incurred in installing the meters, pumps and sampling stations.
6. It would be in the public good for the Company to have approval of the capital additions financing request. The Company provides the following in support:
  - a. The capital additions will allow the Company better serve the needs of the its system customers, with more accurate metering, improvement to system flow and more efficient monitoring of water quality.
7. In support of the replacement financing request for the TD Bank, N.A. loan, the Company proposes that the financing will:
  - a. It will result in a annual estimated cash savings to the Company of \$33,917.
  - b. Allow the Company to replace intercompany debt with institutional debt.
8. It would be in the public good for the Company to have approval of the replacement financing request. The Company provides the following in support:
  - a. It will have a positive effect on the Company's debt structure and lower the rate of return
  - b. This will result in a lower revenue requirement and lower rates.
9. See the Pre-filed Testimony of Stephen St. Cyr in support of both financing requests, attached as Exhibit 5.

WHEREFORE your Petitioner prays:

- A. That the Commission find that it would be in the public good for the Company to be permitted to finance the capital additions, as proposed;
- B. That the Commission find that it would be in the public good for the Company to be permitted to enter into the replacement financing with TD Bank, N.A., as proposed;
- C. That the Commission, by appropriate order, grant the Company permission to finance the capital additions, as proposed;
- D. That the Commission, by appropriate order, grant the Company permission to enter into the replacement financing with TD Bank, N.A., as proposed;
- E. That the Commission make such further findings and orders as may be appropriate on the circumstances.

Dated the 14<sup>th</sup> day of May, 2009

Respectfully submitted,  
HAMPSTEAD AREA WATER COMPANY, INC.

  
Christine Lewis Morse  
Vice President



Schedule A

HAWC System History

Company	Year	Docket	Order	Franchise Area
Walnut Ridge Water Company	1977	DE 76-179	12,827	1,826 Acres
Lancaster Farms-Salem	1984	DR 84-267	17,312	144 Acres
Bricketts Mill-Hampstead	1985	DE 85-149	17,848	80 Acres
Squire Ridge-Hampstead	1985	DE 85-274	17,967	140 Acres
Kent Farm-Hampstead	1987	DE 86-198	18,560	1,700 Acres
Kent Farm-Hampstead	1987	DE 86-198	18,598	Supp Order
Woodland Pond-Hampstead	1987	DE 87-211	18,980	701 Acres
Bryant Woods-Atkinson	1988	DE 87-226	19,230	2,340 Acres
Hampstead Area Water Company	1989	DE 89-047	19,717	Hampstead Merger*
Hampstead Area Water Company	1989	DE 89-047	19,751	1,650 Bryant Woods Merger**
Walnut Ridge Water Company	1990	DE 90-129	19,992	55 Acres
HAWC-Bricketts Mill Extension	1990	DE 90-049	19,783	1,246 Acres
HAWC-Hampstead	1991	DE 91-121	20,224	1,350 Acres
HAWC-Hampstead	1991	DE 91-144	20,320	370 Acres
HAWC-Rainbow Ridge-Plaistow	1993	DE 92-129	20,774	152 Acres
HAWC-Stoneford-Sandown	1996	DE 96-201	22,551	3,483 Acres
HAWC-Colby Pond-Danville	1998	DE 97-154	22,854	177 Acres
HAWC-Oak Hill-Chester	2000	DW 00-059	23,577	
HAWC-Walnut Ridge & Lancaster	2002	DW 01-204	23,954	Atkinson Merger***
HAWC-Camelot Court- Nottingham	2004	DW 02-198	24,296	44 Acres
HAWC-Cornerstone-Sandown	2004	DW 02-198	24,296	188 Acres
HAWC-Lamplighter-Kingston	2004	DW 02-198	24,296	13.66 Acres
HAWC-Maplevale-East Kingston	2004	DW 03-150	24,299	107 Acres
HAWC-Dearborn Ridge-Atkinson	2005	DW 04-055	24,501	541 Acres
HAWC-Hampstead Expansion	2005	DW 04-062	24,520	238 Acres
HAWC-Mill Woods-Sandown	2005	DW 05-063	24,544	35 Acres
HAWC-Waterford Village- Sandown	2005	DW 05-070	24,545	90.37 Acres
HAWC-Atkinson Expansion	2005	DW 05-092	24,592	333 Acres
HAWC-Autumn Hills-Sandown	2006	DW 06-016-	24,608	33.68 Acres
HAWC - Cooper Grove-Kingston	2008	DW-07-133	24,831	211 Acres
HAWC - Black Rocks Village	2008	DW-07-134	24,856	391 Acres
HAWC - Sargent Woods	2008	DW-07-130	24,884	65.97 Acres

\*Merged Bricketts Mill, Kent Farm, Squire Ridge and Woodland Pond into HAWC

\*\*Merged Bryant Woods into Walnut Ridge with requirement that the Bryant Woods rates apply

\*\*\*Merged Lancaster Farms and Walnut Ridge into HAWC

## HAMPSTEAD AREA WATER COMPANY

## 2008 Additions

<u>Sheet #</u>	<u>Account</u>	<u>Amount</u>	
WR-UNK	334	14,456.46	Meters
WR 9-13	311	3,031.60	Drive
WR 21-27	331	11,298.74	Pressure Reducing Station
WR 31-35	331	1,265.40	Sampling Station
BW 36-40	311	1,927.34	Pump
BW 36-40	311	1,605.46	Pump
WR 41	331	1,332.87	Sampling Station
WR 43-45	311	2,056.33	Pump
JR 46	311	1,369.98	Pump
H-UNK	334	14,456.45	Meters
H 7	333	1,038.94	Services
WP 22-24	331	933.96	Sampling Station
CM 42-43	311	3,910.00	SCADA
BM 35	311	2,233.00	Pump
BM 35	311	2,353.69	Pump
BM 35	311	2,868.62	Pump
BM 35	331	986.38	Sampling Station
CP 49	331	969.93	Sampling Station
KF 44-47	331	982.27	Sampling Station
OH 55	331	1,686.86	Sampling Station
RR 27-28	320	14,448.04	Filter
RR 27-28	331	1,354.71	Sampling Station
S 60	331	1,055.45	Sampling Station
CC 54	331	1,097.62	Sampling Station
C 61	331	1,216.24	Sampling Station
CH 50-53	331	1,128.86	Sampling Station
L 59	331	1,169.13	Sampling Station
LF 62	331	1,011.38	Sampling Station
MW 63	331	986.38	Sampling Station
	<b>TOTALS</b>	<b><u>94,232.09</u></b>	

**2008 ADDITIONS  
PROMISSORY NOTE**

Initial Interest Rate 5.50%  
Principle Balance: \$94,232.09  
Date: July 1, 2009  
Term: Twenty (20) years

Hampstead Area Water Company, Inc. (HAWC) promises to pay to Lewis Builders Development, Inc., (LBDI), the sum of Ninety Four Thousand Two Hundred Thirty Two and 09/100<sup>th</sup> Dollars (\$94,232.09) ("Principal"), plus interest calculated initially from the date of this note at the rate of Five and 50/100<sup>th</sup> (5.50%) percent, and payable as follows:

In Two Hundred and Forty (240) monthly installments of \$648.21 commencing on July 1, 2009 and every month thereafter, to be paid on the 1<sup>st</sup> day of each month until the balance is paid in full. The interest rate shall be adjusted on July 1, 2012 and every three (3) years thereafter, to be calculated in the amount of Two and one-quarter (2-1/4%) plus the Prime Rate as published in the Wall Street Journal on the last business day of each calendar year.

Hampstead Area Water Company, Inc. may prepay this note at any time.

HAMPSTEAD AREA WATER  
COMPANY, INC.

\_\_\_\_\_  
Witness:

By: \_\_\_\_\_  
Christine Lewis Morse, Its Vice  
President, duly authorized.

ACKNOWLEDGED AND ACCEPTED  
LEWIS BUILDERS DEVELOPMENT, INC.,

BY \_\_\_\_\_  
Christine Lewis Morse, its President duly authorized

TD Bank, N.A.  
Term Sheet for Discussion Purposes Only –  
For  
Hampstead Area Water Company Inc.  
54 Sawyer Avenue  
Atkinson, NH  
March 16, 2009

The proposed terms and conditions set forth are provided for discussion purposes only and do not constitute an offer, agreement or commitment to lend. The actual terms and conditions upon which the Bank might extend credit to the Borrower are subject to satisfactory completion of due diligence, credit committee approval, satisfactory review of financials, negotiation, execution, and delivery of loan documentation satisfactory to the Bank and other such terms and conditions as may be determined by the Bank.

Borrower: Hampstead Area Water Company

Co-Borrower: Lewis Builders Inc.

Guarantors: Christine Lewis Morse shall provide an unlimited guarantee.

Amount: \$1,350,000.00

Purpose: Refinance existing obligations of Hampstead Area Water Company due to Lewis Builders Inc. and Lewis Builders Development Inc.

Maturity: 5 years

Amortization: 20 years

Interest Rate: Fixed forty eight (48) hours prior to closing for the term of the note at 280 basis points above the 5 year Federal Home Loan Bank Classic Advance Rate. For discussion purposes, if the interest rate were to be set today it would be 6.26%.

Origination Fee: One half of one percent of the first mortgage loan amount - \$6,750.00

Prepayment Penalty: Standard yield maintenance

Collateral:  
First security interest in all business assets of Hampstead Area Water Company Inc.  
  
Mortgage and Assignments of Leases/Rents on the Mortgaged Properties known the East Village Apartments, Atkinson Apartments and Cobblers Ridge subject to existing mortgages held by TD Bank, N.A.

Covenants: Borrower(s) must maintain a minimum debt service coverage ratio of 1.25x defined as net operating income divided by contractual principal and interest, tested annually.

Loan-To-Value Ratio: Subject to review and acceptance by TD Bank's Commercial Appraisal Department of an evaluation of the properties provided as collateral supporting a loan to value ratio no greater than 70%.

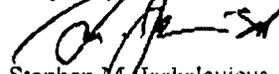
Financial Reporting: Full financial disclosure of the borrower's and guarantor's on an annual basis.

Other Conditions:

1. Subject to receipt and review of satisfactory environmental due diligence.
2. Subject to completion of our due diligence and credit analysis. Information required to complete our due diligence shall include a breakdown of all the borrower and guarantor's existing obligations. The information shall provide a detailed operating statement for each of the respective real estate holdings inclusive of a lease abstract / rent roll indicating the terms of each of the prospective tenants.
3. Subject to final approval by appropriate Bank credit committees.
4. Subject to loan documents satisfactory to Bank counsel.

We are very pleased to be able to provide these terms and would like to discuss any concerns or comments you may have. Please call me directly at (978) 556-1106 so we can discuss this proposal in detail.

Very truly yours,



Stephen M. Jaskelvicus  
Senior Vice President

**HAMPSTEAD AREA WATER COMPANY, INC.**  
INTERCOMPANY NOTES

Date of Note	Borrower	GL Acct. #	Lender	Original Note Amount	Balance 6/30/09	Monthly P & I	Pymts Left	Current Interest Rate	Note Term	Interest Rate	Note Purpose	Comments	PUC Docket #	PUC Order #	Date of PUC Order
10/2/85	Bricketts Mill Water Co	234.04	Lewis Builders Inc	38,596	36,404	372.46	203	10.00%	demand	10.00%	Construction of BM	20 year amortization	85-149	17,848	9/6/85
3/1/88	Kent Farm Water Co.	234.06	Lewis Builders Inc	19,000	17,858	177.10	203	9.50%	demand	9.50%	To pay taxes	20 year amortization	04-215	24,584	1/27/06
10/1/97	HAWC	234.07	Lewis Builders Inc	87,270	33,637	859.38	46	8.50%	15 yrs	8.50%	Construction of Stoneford	Original note was to LBDI	96-201	22,643	
2/18/98	HAWC	234.08	Lewis Builders Inc	222,371	196,396	1,709.84	238	8.50%	30 yrs	8.50%	Construction of Colby Pond	Original note was to LBDI	97-154	22,854	2/18/98
12/31/99	WRWC / HAWC	234.02	Lewis Builders Development Inc	133,245	128,381	768.68	323	5.50%	30 yrs	P+2.25%	Const. of MidPoint & Fieldstone	Rate adjustable every 3 years	04-215	24,584	1/27/06
12/1/93	HAWC	234.05	Lewis Builders Development Inc	245,991	191,011	1,891.46	178	8.50%	30 yrs	8.50%	Consolidate loans		04-215	24,584	1/27/06
6/4/00	HAWC	234.09	Lewis Builders Development Inc	20,285	17,923	199.75	143	8.50%	15 yrs	8.50%	Oak Hill		00-059	23,577	10/30/00
6/1/05	HAWC	234.11	Lewis Builders Development Inc	128,000	114,612	904.21	192	5.50%	20 yrs	P+2.25%	Construction of Cricket/Maplevalle	Rate adjustable every 3 years	04-184	24,470	5/27/05
6/1/05	HAWC	234.12	Lewis Builders Development Inc	190,895	169,088	1,395.30	192	7.75%	20 yrs	P+2.25%	Construction of Bartlett Brook	Rate adjustable every 3 years	02-198	24,296	3/19/04
6/1/05	HAWC	234.13	Lewis Builders Development Inc	124,714	110,467	911.57	192	7.75%	20 yrs	P+2.25%	Construction of Cogswell Farm	Rate adjustable every 3 years	02-198	24,296	3/19/04
6/1/05	HAWC	234.14	Lewis Builders Development Inc	157,730	139,712	1,152.89	192	7.75%	20 yrs	P+2.25%	Construction of Settlers Ridge	Rate adjustable every 3 years	02-198	24,296	3/19/04
2/16/06	HAWC	234.15	Lewis Builders Development Inc	153,700	142,208	1,088.35	203	5.50%	20 yrs	P+2.25%	Angle Pond constr. & meters	Rate adjustable every 3 years	05-086	24,589	2/10/06
6/6/06	HAWC	234.16	Lewis Builders Development Inc	71,968	68,008	694.51	204	10.00%	20 yrs	P+2.25%	Arsenic Filters -Tanglewood, Oakhill & Cricket Hill	Rate adjustable every 3 years	04-215 & 05-112	24,584	1/27/06
4/30/07	HAWC	234.17	Lewis Builders Development Inc	48,065	48,065	1,033.10	60	10.50%	5 yrs	10.50%	Billing System				5/26/06
7/1/08	HAWC	234.19	Lewis Builders Development Inc	34,098	34,098	274.69	240	7.50%	20 yrs	7.50%	Dearborn & Bryant Woods Wells				
<b>Totals</b>				<u>1,675,927</u>	<u>1,447,868</u>	<u>13,433.29</u>									
New TD Banknorth note					1,450,000										
Proposed Interest Rate					6.26%										
Amortization period (years)					20										
Monthly P & I Payment						<u>10,606.91</u>									
Monthly Cash Savings						<u>2,826.38</u>									
Annual Cash Savings						<u>33,916.56</u>									

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION  
HAMPSTEAD AREA WATER COMPANY

DW 09-

PETITION FOR APPROVAL OF FINANCING

PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive, Biddeford, ME.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to support Hampstead Area Water Company's (Company or HAWC) financing request and to prepare the financial exhibits and prefiled direct testimony which describes the financing and the financial schedules. In addition, I am prepared to testify in support of financing.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission, including requests for new and expanded franchises, requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for rate increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to borrow funds from Lewis Builders Development, Inc., an affiliated company (Lewis), which will allow it to pay for the 2008 additions to plant and to borrow from TD Bank, N.A., which will allow it to pay Intercompany notes due Lewis Builders, Inc. and Lewis Builders Development, Inc. In addition, the Company plans to convert \$990,353 of Accounts Payable due to Associated Company to additional paid in capital.

Q. Please describe the financing for the 2008 additions to plant.

A. In 2008 the Company replaced/upgraded/improved the system with various additions to plant. In total, the Company expended \$94,232. The 2008 additions to plant included meters, a water treatment filter, a pressure reducing station, sampling stations, pumps, etc. After reviewing these projects, a number of the projects, i.e., pressure reducing station and sampling stations were DES recommended. A number of other projects, i.e., filter and pumps were critical in order for the system to function.

Q. When does the Company expect that the 2008 additions to plant to be completed?

A. The 2008 additions to plant are already installed. The financing request is for approval of the monies advanced by the affiliated company, Lewis Builders Development, Inc. for the cost of the purchase and installation of the 2008 additions to plant.

- Q. Please describe the proposed note.
- A. The Company will be borrowing \$94,232 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25% over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 2 to the Petition for Financing.
- Q. Please describe the Intercompany Notes due Lewis Builders, Inc. and Lewis Builders Development, Inc.
- A. Generally, the Intercompany Notes due Lewis Builders, Inc. and Lewis Builders Development, Inc. financed additions to plant, the purchase of water systems and various other costs. The terms of notes are 5 – 30 years. The interest rates on the notes are 7.5 % - 10.5%.
- Q. Please describe the TD Bank, N. A. financing.
- A. The TD Bank financing will refinance a significant portion of its long term debt owed to Lewis Builders, Inc. and Lewis Builders Development, Inc., both affiliated companies. As per the Term Sheet, (Exhibit 3 to the Petition for Financing) the TD Bank financing, initially requested for \$1,350,000, will be for \$1,450,000 with a Five (5) year maturity over a Twenty (20) year amortization period and 280 basis points above the Five (5) Federal Home Loan Bank Classic Advance Rate (6.26% as of March 16, 2009). The TD Bank financing will replace a number of Intercompany Notes. (See Exhibit 4 to the Petition for Financing).
- Q. When does the Company anticipate entering into the loan agreement with TB Bank?

- A. The Company anticipates entering into the loan agreement with TB Bank upon PUC approval of the financing.
- Q. Please describe the Company's plan to convert \$990,353 of Accounts Payable due to Associated Company to additional paid in capital.
- A. Lewis Builders Development, Inc. provides services to the Company under a management agreement. Lewis Builders Development, Inc. bills the Company for such services. The Company records the expenditure and set up the accounts payable to associated company. There have been times when the Company has been unable to pay the accounts payable to associated companies. The Company generally pays the accounts payable to associated companies as cash is available to do so. The Company has considered various ways in which to pay the accounts payable to associated company including converting it to long term debt and converting it to equity. After discussions in house, and in consultation with the accountants for HAWC and Lewis Builders Development, Inc., the Company decided to convert it to additional paid in capital. The conversion to additional paid in capital will improve the Company's capital structure, increase revenues and reduce cash requirements.
- Q. When does the Company anticipate converting the accounts payable to associated company to additional paid in capital?
- A. The Company anticipates converting the accounts payable to associated company to additional paid in capital in 2009.
- Q. Is there anything else that you would like to discuss before you describe the financial schedules?

- A. No.
- Q. Has the Company determined the impact of the financings and the conversion of the accounts payable to associated company on the Company's financial statements?
- A. Yes. I have prepared proforma financial statements identified as SPS 1 – SPS 6.
- Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Deferred Debits?
- A. Yes. Generally, column (a) identifies the account title and PUC account number. Column (b) identifies the supporting schedule in the PUC Annual Report for the current year end (12/31/08) balances. Column (c) reflects the actual December 31, 2008 balances. Column (d) identifies the adjustments for the 2008 financing, the TD Bank financing and the conversion of the accounts payable to associated company to additional paid in capital to the December 31, 2008 account balances. Column (e) is the sum of columns (c) and (d).
- Q. Please explain the adjustments reflected on SPS 1-1.
- A. Schedule SPS 1-1 contains 3 adjustments.

First of all, there is no need to adjust Utility Plant and Accumulated Depreciation because the 2008 additions to plant are already reflected in the Utility Plant and Accumulated Depreciation balances.

The first adjustment to Cash for (\$38,278) is primarily for the net of the cash received from TD Bank financing less payment to Lewis Builders, Inc. and Lewis Builders Development, Inc. for the Intercompany Notes.

The second adjustment to Unamortized Debt Expense for \$9,500 is the net of the TD Bank origination fee and costs incurred in order to pursue PUC approval of the financing less the amortization of such costs.

The third adjustment to Miscellaneous Deferred Debits for \$730 is for the elimination of the financing costs associated with the Intercompany Notes.

Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments on reflected on SPS 1 – 2.

A. Schedule SPS 1-2 contains 4 adjustments.

The first adjustment to additional paid in capital represents the amount of Accounts Payable to Associated Company that was converted to additional paid in capital. The amount is the 12/31/07 Accounts Payable to Associated Company balance.

The second adjustment to Retained Earnings for \$17,140 represents the net income impact of the various income statement transactions (i.e., interest expense and amortization of financing costs).

The third adjustment to Other Long Term Debt for \$47,584 primarily represents the net amount of the borrowings of \$94,232 and \$1,450,000 less the payment of the Intercompany Notes of \$1,474,734. Please note that the Company continues to pay on the Intercompany Notes during 2009.

The fourth adjustment to Accounts Payable to Associated Co. represents the transfer of the \$94,232 for the 2008 additions to plant to long term debt and the conversion of the \$990,353 to additional paid in capital.

Q. Would you please explain Schedule SPS - 2, entitled Statement of Income?

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments reflected on SPS -2.

A. There are 2 adjustments to the Statement of Income.

The first adjustment to Interest Expense of (\$18,370) represents the net of interest expense on 2008 financing and the net of the interest expense on TD Bank financing less the interest expense incurred in 2008 on the Intercompany Notes.

The second adjustment to Amortization of Debt Expense of \$1,230 represents the write off of the financing costs on the Intercompany Notes and the annual amortization of the new financing costs.

Q. Would you please explain Schedule SPS 3, entitled Capital Structure?

A. The Current Year End Balance is the balance at 12/31/08 and is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the Schedule. The Company's 12/31/08 debt to equity position is heavily weighted towards debt due to its negative equity position. The Company's owner has made significant equity contribution in recent years. The conversion of the accounts payable to associated company to additional paid in capital and the improve earnings due to lower interest rates results in a significantly improved capital structure. With the conclusion of DW 08-065, and

the resulting rate increase, the Company expects that the capital structure will continue to improve.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the transfer of the accounts payable to associated company to long term debt for the 2008 additions to plant, (2) the realization of cash from the TD Bank loan and the utilization of the funds for the payment of the Intercompany Loans, (3) the conversion of the accounts payable to associated companies to additional paid in capital and (4) the repayment of the principal and interest on the loans.

Q. Would you like to explain SPS-5?

A. SPS-5 shows the source and use of the funds.

Q. Would you please explain SPS-6?

A. SPS-6 is the estimated costs of the financing including the TD Bank loan origination fee.

Q. How does the Company propose to repay the new debt?

A. A portion of the 2008 additions to plant is included in the step 1 rate increase in DW 08-065. The financing for the 2008 additions to plant has been incorporated into the capital structure and used in the determination of the rate of return in DW 08-065. The TD Bank loan (instead of the Intercompany Notes) has also been incorporated into the capital structure and used in the determination of the rate of return in DW 08-065. In addition, the conversion of the accounts payable to associated company to additional paid in capital has been incorporated into the

capital structure and used in the determination of the rate of return in DW 08-065.

With the inclusion of some of the plant in rate base and the financings and the conversion of the accounts payable to associated company to additional paid in capital in the capital structure and rate of return, the Company believes that the revenues will be sufficient to pay principal and interest on the loans. The Company's ability to repay the financings is dependant on PUC approval of an increase in rates in DW 08-065.

Q. What does the Company propose to do with the costs of the financing?

A. The cost associated with the TD bank loan and the cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will amortized over the term of the loans.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The 2008 additions to plant allow the Company to continue to operate the system including more accurate metering, improvement to system flow and more efficient monitoring of water quality. The financing of the 2008 additions will allow the Company to repay Lewis Builders Development, Inc. The TD Bank financing will allow the Company to repay the Intercompany Notes and lower interest rates. The conversion of the accounts payable to associated company to additional paid in capital will improve the Company's capital structure.

- Q. When should the Commission approve the financing?
- A. The Company respectfully requests that the Commission approve the financings either before it issues its order in DW 08-065 or in conjunction with the issuance of its order in DW 08-065.
- Q. Why is it important for the Commission to approve the financing either before it issues its order in DW 08-065 or in conjunction with the issuance of its order in DW 08-065?
- A. It is important because the impact of the financing and the conversion of the Accounts Payable to Associated Company to additional paid in capital is incorporated in the capital structure and rate of return that is being used in the determination of the revenue requirement in DW 08-065.
- Q. Is there anything else that the Company would like to bring to the Commission's attention?
- A. No.
- Q. Please summarize the approvals that the Company is requesting.
- A. The Company respectfully requests that the PUC approve the financing of the 2008 additions to plant amounting to \$94,232, under the terms stated previously. The Company also respectfully requests that the PUC approve the TD Bank financing of \$1,450,000.00, under the terms stated previously.
- Q. Does this conclude your testimony?
- A. Yes.

**F-1 BALANCE SHEET**  
**Assets and Other Debits**

Line No.	Account Title (Number) (a)	Ref Sch. (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
<b>UTILITY PLANT</b>					
1	Utility Plant (101-106)	F-6	\$ 11,069,425		\$ 11,069,425
2	Less: Accumulated Depr. and Amort. (108-110)	F-6	2,799,768		2,799,768
3	Net Plant		\$ 8,269,657	\$ -	\$ 8,269,657
4	Utility Plant Acquisition Adj. (Net) (114-115)	F-7			
5	Total Net Utility Plant		\$ 8,269,657	\$ -	\$ 8,269,657
<b>OTHER PROPERTY AND INVESTMENTS</b>					
6	Nonutility Property (121)	F-14			
7	Less: Accumulated Depr. and Amort. (122)	F-15			
8	Net Nonutility Property				
9	Investment in Associated Companies (123)	F-16			
11	Utility Investments (124)	F-16			
12	Other Investments	F-16			
13	Special Funds(126-128)	F-17			
14	Total Other Property & Investments				
<b>CURRENT AND ACCRUED ASSETS</b>					
16	Cash (131)		\$ 14,173	\$ (38,278)	\$ (24,105)
17	Special Deposits (132)	F-18			
18	Other Special Deposits (133)	F-18			
19	Working Funds (134)				
20	Temporary Cash Investments (135)	F-16			
21	Accounts and Notes Receivable-Net (141-144)	F-19	93,089		93,089
22	Accounts Receivable from Assoc. Co. (145)	F-21			
23	Notes Receivable from Assoc. Co. (146)	F-21			
24	Materials and Supplies (151-153)	F-22			
25	Stores Expense (161)				
26	Prepayments-Other (162)	F-23	6,469		6,469
27	Prepaid Taxes (163)	F-38	33,974		33,974
28	Interest and Dividends Receivable (171)	F-24			
29	Rents Receivable (172)	F-24			
30	Accrued Utility Revenues (173)	F-24	152,165		152,165
31	Misc. Current and Accrued Assets (174)	F-24	-		-
32	Total Current and Accrued Assets		\$ 299,870	\$ (38,278)	\$ 261,592
<b>DEFERRED DEBITS</b>					
32	Unamortized Debt Discount & Expense (181)	F-25		\$ 9,500	\$ 9,500
33	Extraordinary Property Losses (182)	F-26			
34	Prelim. Survey & Investigation Charges (183)	F-27			
35	Clearing Accounts (184)				
36	Temporary Facilities (185)				
37	Miscellaneous Deferred Debits (186)	F-28	120,320	(730)	119,590
38	Research & Development Expenditures (187)	F-29			
39	Accumulated Deferred Income Taxes (190)	F-30	24,934		24,934
40	Total Deferred Debits		\$ 145,254	\$ 8,770	\$ 154,024
<b>TOTAL ASSETS AND OTHER DEBITS</b>					
			\$ 8,714,781	\$ (29,508)	\$ 8,685,273

**F-1 BALANCE SHEET**  
**Equity Capital and Liabilities**

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
<b>EQUITY CAPITAL</b>					
1	Common Stock Issued (201)	F-31	\$ 16,767		\$ 16,767
2	Preferred Stock Issued (204)	F-31			
3	Capital Stock Subscribed (202,205)	F-32			
4	Stock Liability for Conversion (203, 206)	F-32			
5	Premium on Capital Stock (207)	F-31			
6	Installments Received On Capital Stock (208)	F-32			
7	Other Paid-In Capital (209,211)	F-33	1,113,401	990,353	2,103,754
8	Discount on Capital Stock (212)	F-34			
9	Capital Stock Expense(213)	F-34			
10	Retained Earnings (214-215)	F-3	(1,427,988)	17,140	(1,410,848)
11	Reacquired Capital Stock (216)	F-31			
12	Total Equity Capital		\$ (297,820)	\$ 1,007,493	\$ 709,673
<b>LONG TERM DEBT</b>					
13	Bonds (221)	F-35			
14	Reacquired Bonds (222)	F-35			
15	Advances from Associated Companies (223)	F-35			
16	Other Long-Term Debt (224)	F-35	\$ 3,276,750	\$ 47,584	\$ 3,324,334
17	Total Long-Term Debt		\$ 3,276,750	\$ 47,584	\$ 3,324,334
<b>CURRENT AND ACCRUED LIABILITIES</b>					
18	Accounts Payable (231)		\$ 55,622		\$ 55,622
19	Notes Payable (232)				
20	Accounts Payable to Associated Co. (233)	F-36			
21	Notes Payable to Associated Co. (234)	F-37	1,103,394	(1,084,585)	18,809
22	Customer Deposits (235)				-
23	Accrued Taxes (236)	F-38	638		638
24	Accrued Interest (237)		65,694		65,694
25	Accrued Dividends (238)				
26	Matured Long-Term Debt (239)	F-39			
27	Matured Interest (240)	F-39			
28	Misc. Current and Accrued Liabilities (241)	F-39	451		451
29	Total Current and Accrued Liabilities		\$ 1,225,799	\$ (1,084,585)	\$ 141,214
<b>DEFERRED CREDITS</b>					
30	Unamortized Premium on Debt (251)	F-25			
31	Advances for Construction (252)	F-40			
32	Other Deferred Credits (253)	F-41			
33	Accumulated Deferred Investment Tax Credits (255)	F-42			
34	<b>Accumulated Deferred Income Taxes:</b>				
35	Accelerated Amortization (281)	F-45			
36	Liberalized Depreciation (282)	F-45			
37	Other (283)	F-45			
38	Total Deferred Credits				
<b>OPERATING RESERVES</b>					
39	Property Insurance Reserve (261)	F-44			
40	Injuries and Damages Reserve (262)	F-44			
41	Pensions and Benefits Reserves (263)	F-44			
42	Miscellaneous Operating Reserves (265)	F-44			
43	Total Operating Reserves		\$ -	\$ -	\$ -
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>					
44	Contributions In Aid of Construction (271)	F-46	\$ 6,336,258		\$ 6,336,258
45	Accumulated Amortization of C.I.A.C. (272)	F-46	1,826,206		1,826,206
46	Total Net C.I.A.C.		\$ 4,510,052	\$ -	\$ 4,510,052
46	<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>		\$ 8,714,781	\$ (29,508)	\$ 8,685,273

## F-2 STATEMENT OF INCOME

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	Current Year End Balance (c)	Previous Year End Balance (d)	Increase or Decrease (e)
<b>UTILITY OPERATING INCOME</b>					
1	Operating Revenues(400)	F-47	\$ 1,258,021		\$ 1,258,021
2	Operating Expenses:				
3	Operating and Maintenance Expense (401)	F-48	791,172		791,172
4	Depreciation Expense (403)	F-12	343,666		343,666
5	Amortization of Contribution in Aid of Construction (405)	F-46.4	(168,552)		(168,552)
6	Amortization of Utility Plant Acquisition Adjustment (406)	F-49			
7	Amortization Expense-Other (407)	F-49			
8	Taxes Other Than Income (408.1-408.13)	F-50	120,503		120,503
9	Income Taxes (409.1, 410.1, 411.1, 412.1)		4,123		4,123
10	<b>Total Operating Expenses</b>		\$ 1,090,912	\$ -	\$ 1,090,912
11	Net Operating Income (Loss)		\$ 167,109	\$ -	\$ 167,109
12	Income From Utility Plant Leased to Others (413)	F-51			
13	Gains(Losses) From Disposition of Utility Property (414)	F-52			
14	<b>Net Water Utility Operating Income</b>		\$ 167,109	\$ -	\$ 167,109
<b>OTHER INCOME AND DEDUCTIONS</b>					
15	Revenues From Merchandising, Jobbing and Contract Work (415)	F-53			
16	Costs and Expenses of Merchandising, Jobbing and Contract Work (416)	F-53			
17	Equity in Earnings of Subsidiary Companies (418)				
18	Interest and Dividend Income (419)	F-54			
19	Allow. for funds Used During Construction (420)	F-54			
20	Nonutility Income (421)	F-54			
21	Gains (Losses) Form Disposition Nonutility Property (422)				
22	Miscellaneous Nonutility Expenses (426)	F-54			
23	<b>Total Other Income and Deductions</b>		\$ -	\$ -	\$ -
<b>TAXES APPLICABLE TO OTHER INCOME</b>					
24	Taxes Other Than Income (408.2)	F-50			
25	Income Taxes (409.2, 410.2, 411.2, 412.2, 412.3)				
26	<b>Total Taxes Applicable To Other Income</b>				
<b>INTEREST EXPENSE</b>					
27	Interest Expense (427)	F-35	\$ 181,163	\$ (18,370)	\$ 162,793
28	Amortization of Debt Discount & Expense (428)	F-25		1,230	1,230
29	Amortization of Premium on Debt (429)	F-25			
30	<b>Total Interest Expense</b>		\$ 181,163	\$ (17,140)	\$ 164,023
31	<b>Income Before Extraordinary Items</b>		\$ (14,054)	\$ 17,140	\$ 3,086
<b>EXTRAORDINARY ITEMS</b>					
32	Extraordinary Income (433)	F-55			
33	Extraordinary Deductions (434)	F-55			
34	Income Taxes, Extraordinary Items (409.3)	F-50			
35	<b>Net Extraordinary Items</b>				
<b>NET INCOME (LOSS)</b>			\$ (14,054)	\$ 17,140	\$ 3,086

**F-1 BALANCE SHEET**  
**Capital Structure**

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
<b>EQUITY CAPITAL</b>					
1	Common Stock Issued (201)		\$ 16,767		\$ 16,767
2	Other Paid-In Capital (209,211)		1,113,401	990,353	2,103,754
3	Retained Earnings (214-215)		(1,427,988)	17,140	(1,410,848)
4	Total Equity Capital		\$ (297,820)	\$ 1,007,493	\$ 709,673
<b>LONG TERM DEBT</b>					
5	Other Long-Term Debt (224)		\$ 3,276,750	\$ 47,584	\$ 3,324,334
6	Total Long-Term Debt		\$ 3,276,750	\$ 47,584	\$ 3,324,334
7	Total Capital Structure		\$ 2,978,930	\$ 1,055,077	\$ 4,034,007

Line No.	Account Title (Number) (a)	Ref. Sch. (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
<b>EQUITY CAPITAL</b>					
1	Common Stock Issued (201)		0.56%	0.00%	0.42%
2	Other Paid-In Capital (209,211)		37.38%	93.87%	52.15%
3	Retained Earnings (214-215)		-47.94%	1.62%	-34.97%
4	Total Equity Capital		-10.00%	95.49%	17.59%
<b>LONG TERM DEBT</b>					
5	Other Long-Term Debt (224)	F-35	110.00%	4.51%	82.41%
6	Total Long-Term Debt		110.00%	4.51%	82.41%
7	Total Capital Structure		100.00%	100.00%	100.00%

**Hampstead Area Water Company**  
**Journal Entries**

**SPS 4**

Dr.	181	Unamortized Debt Expense	10,000	
Cr.	131	Cash		10,000

To record estimated debt expense associated with financing 2008 additions and 2009 refinancing

Dr.	233	Accounts Payable to Assoc. Co.	94,232	
Cr.	224	Other Long Term Debt		94,232

To record reclassification of A/P Assoc Co to LTD for 2008 additions to plant

Note: The 2008 additions to plant are already reflected in plant in service

Dr.	131	Cash	1,450,000	
Cr.	224	Other Long Term Debt		1,450,000
Dr.	224	Other Long Term Debt	1,474,734	
Cr.	131	Cash		1,474,734

To record the 2009 refinancing of certain intercompany LTD

Note: The 12/31/08 balance is \$1,474,734. The Company continues to make monthly payments on the LTD. The Company anticipates that the amount of the financing will be \$1,450,000.

Dr.	233	Accounts Payable to Assoc. Co.	990,353	
Cr.	209	Additional Paid in Capital		990,353

To record the reclassification of the 12/31/07 A/P Assoc Co balance to add'l paid in capital

Dr.	224	Other Long Term Debt	2,662	
Dr.	427	Interest Expense	5,116	
Cr.	131	Cash		7,778

To record 1st year principal and interest payments on N/P for 2008 additions

Dr.	131	Cash	131,517	
Cr.	224	Other Long Term Debt		18,327
Cr.	427	Interest Expense		113,190
Dr.	224	Other Long Term Debt	37,579	
Dr.	427	Interest Expense	89,704	
Cr.	131	Cash		127,283

To reverse 2008 payments of principal and interest on intercompany LTD and to record 1st year principal and interest on N/P TD Bank

Dr.	428	Amortization of Debt Expense	730	
Cr.	186	Miscellaneous Deferred Debits		730

To record annual amortization of debt expense

Dr.	428	Amortization of Debt Expense	500	
Cr.	181	Unamortized Debt Expense		500

To record annual amortization of debt expense

**Hampstead Area Water Company**  
**Source and Use of Funds**

**SPS 5**

Source of Funds

2008/2009

Lewis Builders Development, Inc.  
TD Bank, N. A.  
Total Source of Funds

\$ 94,232  
1,450,000  
\$ 1,544,232

Use of Funds

2008 Additions to Plant  
Notes - Associated Companies  
Total Use of Funds

\$ 94,232  
1,450,000  
\$ 1,544,232

**Hampstead Area Water Company  
Estimated Cost of Financing**

**SPS 6**

2008 Financing / 2009 Refinancing

TD Banknorth origination fees	\$7,250
St. Cyr & Associates	1,375
Lewis Builders Development	<u>1,375</u>
Total Estimated Financing Costs	<u>\$10,000</u>