

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 09-112

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Approval of Financing

Order Approving Financing

ORDER NO. 24,999

August 4, 2009

I. BACKGROUND

Hampstead Area Water Company, Inc. (HAWC) is a public water utility serving approximately 2,900 customers in various communities in southeastern New Hampshire. On May 15, 2009, HAWC filed a petition seeking financing approval for two separate transactions. HAWC proposes to borrow \$94,232.09 from its affiliate, Lewis Builders Development, Inc. (LBDI), to finance certain capital additions placed into service in 2008. The second transaction involves a bank refinancing of some \$1,450,000 in long term debt currently owed to LBDI and another affiliate, Lewis Builders, Inc. (LBI). HAWC also submitted a Motion to Consolidate its financing petition with its current rate case, Docket No. DW 08-065. In support of its requests, HAWC provided direct testimony of Stephen P. St. Cyr, a consultant, a proposed note for the LBDI financing, and a bank term sheet for the \$1.4 million loan¹.

The LBDI financing involves borrowing \$94,232.09 at an interest rate of prime plus 2.25%, adjusted every three years, over a term of 20 years. The funds have already been advanced to HAWC and were used for capital improvements to HAWC's system during 2008,

¹ HAWC's petition indicates that, while its initial request to the bank was to borrow \$1,350,000, it subsequently requested to borrow \$1,450,000. The earlier requested amount is shown on the term sheet.

including meters, a water treatment filter, a pressure reducing station, sampling stations, and pumps.

The proposed bank borrowing is with TD Bank, N.A. The interest rate on the loan will be 280 basis points above the five year Federal Home Loan Bank Classic Advance Rate. As of March 16, 2009, the interest rate on the loan was 6.26%. At the June 3, 2009 hearing in HAWC's rate case, Docket No. DW 08-065, HAWC stated that the interest rate was now 300 basis points above the five-year Federal Home Loan Bank Classic Advance Rate and that, as of June 2009, the resulting interest rate on the loan was 6.46%. Christine Lewis Morse, President of HAWC, will provide an unlimited guarantee for the loan. HAWC will provide a first security interest in all its business assets. The note will mature in five years, but will be amortized on a twenty year schedule. The funds borrowed will be used to pay off existing long term notes payable to both LBI and LBDI and will result in cash flow savings to HAWC and a lower weighted average cost of debt as shown on Exhibit 4 attached to the petition.

On May 27, 2009, Staff, the Office of the Consumer Advocate (OCA), and HAWC filed a stipulation in HAWC's rate case, Docket No. DW 08-065, that recommended a new revenue requirement incorporating the expected lower weighted average cost of debt of the two proposed financings. This resulted in a smaller increase in HAWC's permanent rates than would otherwise have been necessary. Staff and HAWC stipulated that the proposed financings were reasonable and consistent with the public good and recommended the Commission approve the financings. OCA took no position on the amount or terms of the financings.

II. COMMISSION ANALYSIS

We first address HAWC's motion to consolidate. N.H. Code Admin. Rule Puc 203.19 (a) states that "[w]hen more than one application or petition seeks the same or similar relief, the Commission shall consolidate the cases to be heard on a common record if it determines that to do so will promote the orderly and efficient conduct of the proceedings." In this instance, the impact of the proposed financings has been reflected in the revenue requirement proposed by the settling parties in HAWC's rate case, Docket No. DW 08-065, and approved by a separate order. As a result, it is unnecessary to consolidate the two dockets.

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State 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 consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984).

The bank loan to refinance existing long term debt is for loans the Commission has previously approved between HAWC and LBDI and LBI. The interest rates on these loans range from 5% to 10%, with the average being about 8%. The interest rate on the proposed bank loan is lower and will lower HAWC's weighted average cost of debt and this will provide benefits to customers in the form of lower rates. We thus find the refinancing to be consistent with the public good.

HAWC's loan with LBDI is at terms similar to those for loans we have approved previously between HAWC and its affiliates and we continue to find the terms to be reasonable

and consistent with the public good. With respect to the capital additions that were placed in service through the use of these funds, we found them to be prudent, used, and useful in our final order in Docket No. DW 08-065. Accordingly, the proposed uses of the funds are in the public interest.

Having reviewed the filing in this docket, and in light of our review and action in Docket No. DW 08-065, we will approve the two loans pursuant to RSA 369:1. Pursuant to RSA 369:2 we also approve HAWC's grant of a security interest in its real and personal property if needed to secure the loans. If the final terms and conditions of the financing vary materially from those described above, such new or modified terms and conditions shall be subject to additional Commission approval.

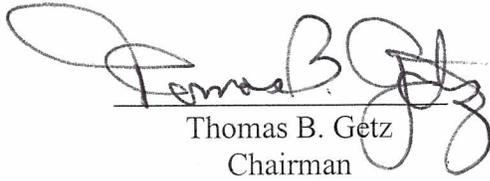
Based upon the foregoing, it is hereby

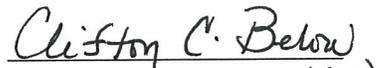
ORDERED, that HAWC's request to borrow up to \$1,450,000 and \$94,232.09 according to the terms described above are hereby approved, and it is

FURTHER ORDERED, that HAWC shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transactions; and it is

FURTHER ORDERED, that HAWC's motion to consolidate this docket with Docket No. DW 08-065 is denied.

By order of the Public Utilities Commission of New Hampshire this fourth day of
August, 2009.


Thomas B. Getz
Chairman


Clifton C. Below (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director



ROBERT LEVINE
HAMPSTEAD AREA WATER COMPANY
54 SAWYER AVE
ATKINSON NH 03811

08/04/09 Order No. 24,999 issued and forwarded to all parties.
Copies given to PUC Staff.

Docket #: 09-112

Printed: August 04, 2009

FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

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