

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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December 29, 2010

Ms. Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DW 10-241: Hampstead Area Water Company, Inc.
Petition for Acquisition of Assets and for Approval of Financing –
Settlers Ridge

Dear Ms. Howland:

On September 10, 2010, Hampstead Area Water Company, Inc. (HAWC) submitted a petition seeking approval for the acquisition of certain assets as well as the associated financing relative to the construction of new wells, a pumphouse and other equipment at its Settlers Ridge system. HAWC's petition included supporting schedules and copies of invoices as well as the pre-filed direct testimony of Stephen P. St. Cyr, HAWC's consultant in this case. In its petition, HAWC indicated that the wells, pumphouse and other associated equipment will be acquired from its affiliate, Lewis Builders Development, Inc. (LBDI) which is responsible for the actual construction of these assets. The total cost of construction and the amount for which HAWC is seeking financing approval is \$536,505. HAWC states that these improvements are part of its ongoing efforts towards water source planning and are necessary to enhance its service to customers by better ensuring a consistent and reliable supply of water.

A total of four new wells were drilled at HAWC's Settlers Ridge system as a result of and in conjunction with its Hydrology Study / Large Groundwater Withdrawal Permit project which was the subject of recent Commission dockets DW 06-104 and DW 10-134.¹ HAWC indicated in its filing that the costs associated with the construction of the new wells totaled \$103,605 and submitted copies of invoices in support of this amount. HAWC's petition

¹ Docket DW 06-104 was HAWC's original request for financing approval to acquire funds from LBDI to conduct a hydrology study and apply for a large groundwater withdrawal permit within HAWC's Atkinson core system. Order No. 24,728, issued February 2, 2007 in that docket, provided the Commission's approval for HAWC to borrow funds necessary to conduct the study and permit process. In Docket DW 10-134, the Commission issued Order No. 25,159 on October 25, 2010 which approved HAWC's request to increase the amount of the financing necessary to complete the study and permit process as well as approved rate recovery of those costs. It is the financing of new wells and a pumphouse at Settlers Ridge, resulting from the study and permit process, that are the subject of the instant petition.

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further indicated that the construction of the pumphouse and other associated assets would be completed by the end of 2010. However, in later discovery, HAWC indicated that construction of these assets is now not intended to commence until Commission approval is granted in this docket.² The total estimated cost submitted by HAWC for the construction of the pumphouse and other associated assets was \$432,900.

In order to finance the purchase of these assets, HAWC proposes to issue a promissory note to LBDI in the amount of \$536,505. The term of the note is proposed to be twenty years with an interest rate of 2.25% above the prime rate as of the last business day of the quarter prior to receiving Commission approval and adjusted every three years hence. The Wall Street Journal prime rate as of September 30, 2010 was 3.25%. Therefore, the initial interest rate of the note is currently anticipated to be 5.50%.

With regard to the proposed financing's effect on HAWC's present capitalization ratio, the pre-filed direct testimony of Stephen P. St. Cyr indicates that the debt-to-equity ratio will change from an approximate 87% / 13% mix currently to an approximate 88% / 12% mix after the proposed funds are borrowed. However, Mr. St. Cyr further states that while such a debt-to-equity ratio is unusual, HAWC and LBDI's ownership are one in the same. Further, HAWC's ownership has previously demonstrated a willingness to provide the resources necessary in order for HAWC to meet its obligations. Mr. St. Cyr also explained that the cost of HAWC's financing with LBDI is currently lower than financing with a bank, thus ultimately resulting in a cost savings to its customers.

Mr. St. Cyr's testimony estimated that the proposed additions to plant would result in an increase in HAWC's revenue requirement of \$68,705, or 4.66%. Staff projects that such an increase would result in a \$0.30 per ccf increase in HAWC's present consumption rate. For an average residential customer using 8,800 cubic feet of water annually, this change would result in an increase of \$2.20 in their average monthly bill.

The Commission's Audit Staff conducted an examination of the costs submitted by HAWC relative to the construction of the four new wells. During the process of this examination it was discovered that an additional \$14,780 should be included as part of the cost of the wells. This amount was derived through discovery in the DW 10-134 docket where it was concluded that a portion of the costs originally included in the total amount of the Hydrology Study / Large Groundwater Withdrawal Permit project should be reclassified to the cost of the new Settlers Ridge wells. In settlement of that case, HAWC agreed to this reclassification. Therefore, the Audit Staff examined an amended total of \$118,385 (\$103,605 + \$14,780) in well construction costs, finding no exceptions. A copy of the Audit Staff's Final Audit Report dated November 23, 2010 is attached to this correspondence as Exhibit 1.

Staff propounded two rounds of discovery on September 21, 2010 and November 30, 2010. The respective responses from HAWC were received on September 22, 2010 and

² See Exhibit 3: HAWC response to Staff Data Request 2-1.

Page 3

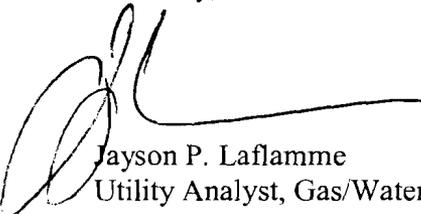
December 7, 2010. Copies of those responses are attached to this correspondence as Exhibits 2 and 3.

Staff has examined HAWC's filing along with the associated discovery including the Final Report issued by the Audit Staff and recommends that the Commission grant approval for the acquisition of the assets proposed by HAWC as well as the associated financing in an amount up to \$551,285 (\$536,505 + \$14,780). The recent hydrology study and large groundwater withdrawal permit process were both undertaken at the strong urging of the New Hampshire Department of Environmental Services (NH DES) as a means of identifying new sources of supply for HAWC. A direct result of these projects was the installation of the four new wells at the Settlers Ridge system. Staff agrees with HAWC's assertion that the construction of these new wells along with the pumphouse and other assets necessary to provide delivery from such will enhance its service to customers by better ensuring a consistent and reliable supply of water.

Staff has also reviewed the proposed financing to evaluate its effect on the overall capitalization of HAWC, as well as the ultimate projected effect on customers. It is Staff's opinion that the proposed financing will have a moderate impact on each area of concern. The terms of the proposed financing are very similar to other HAWC financings with LBDI recently approved by the Commission. Further, the initial anticipated interest rate of 5.50% will be favorable for HAWC's customers in terms of utility rate impact. Staff estimates that the rate impact of the assets to be financed once placed in rate base, will be an approximate increase of 5.0%. With regard to the effect on HAWC's capitalization, Staff agrees with Mr. St. Cyr's testimony that the proposed new debt will only slightly increase the debt portion of HAWC's overall capitalization. Nevertheless, HAWC will remain a highly leveraged utility. However, Staff agrees to some extent with Mr. St. Cyr's assertions that the close relationship of HAWC and LBDI and LBDI's ability and willingness to provide financing for HAWC's needed capital improvements somewhat mitigates legitimate concerns about the current highly leveraged position of the utility. In spite of this, Staff does believe that HAWC will need to consider additional new equity capital in the near future.

Staff recommends that the Commission issue an Order *Nisi* approving the purchase and financing of the proposed assets. If the Commission has any further questions regarding this case, please do not hesitate to contact either myself or any of the other Staff in the Gas/Water Division.

Sincerely,



Jayson P. Laflamme
Utility Analyst, Gas/Water Division

Attachments
cc: Service List

DW 10-241
Hampstead Area Water Company, Inc.
Petition for Acquisition of Assets and for Approval of Financing –
Settlers Ridge

EXHIBIT 1: FINAL AUDIT REPORT

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 23, 2010
AT (OFFICE): NHPUC

FROM: James Schuler, Examiner

SUBJECT: Hampstead Area Water Co., Inc.
DW 10-134
Settlers Ridge – Step Increase
Final Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst

Scope of Plant Audit

The PUC Audit Staff (Audit) reviewed support for Hampstead Area Water Company's (HAWC's, Company) 2007 and 2008 additions to the Settlers Ridge development. Audit reviewed HAWC's Job Cost Transaction reports, invoices and labor/equipment records provided by the Company totaling \$118,385.

Audit also tied the HAWC supporting step adjustment schedule of Construction Work in Progress (Exhibit 2) to the Company's PUC filed Annual Report, schedule F-10.

Labor Burden and Overhead Rates

Lewis Builders Development Inc (LBD) has an agreement by and between HAWC for management, services and real estate facilities necessary for daily operations. LBD bills HAWC for services provided at rates set forth in the Agreement.

In rate case DW 08-065 and the step adjustment for Hampstead/Atkinson Interconnection the Audit Staff reviewed and tested several employees' labor rates and the overhead and burden rates billed.

For this Step Adjustment, LBD invoices and all support provided were reviewed. Labor and equipment costs were traced to rates previously accepted by Audit. This included year 2007 and 2008; hourly labor, overhead and burden rates. The year 2007 overhead and burden rates were 20% and 61%. LBD year 2008 overhead billed was 21% and the burden rate was 62%.

Equipment Rates

Lewis Equipment Company, Inc. (LEC) has an Agreement by and between HAWC for use of equipment and labor.

In rate case DW 08-065, and the step adjustment for Hampstead/Atkinson Interconnection, the Audit Staff reviewed and tested several equipment and labor charges.

For this Step Adjustment, LBD invoices were reviewed and traced to rates previously accepted by Audit. This included years 2007 and 2008; labor and equipment hourly rates.

Plant Additions

Account 307 – Wells

The Company had two 6” wells drilled in March of 2007 and one 8” well drilled in December of 2007. One 8” well was drilled in January of 2008. All sub-contracted drilling totaled \$20,236. Audit traced the Lewis Builder’s timesheets to the actual invoices noting the job numbers, dates and hours worked including equipment charges with no exceptions.

Pumping tests on the wells including the Hydrogeologic Report and final responses to NHDES for Settlers Ridge totaled \$45,384.

Audit reviewed support for a Lewis Builder Development invoice totaling \$25,531 which included materials and labor relating to Well SR3 and noted a Lewis Equipment Company invoice for the rental of a generator for 6 days totaling \$3,000. Audit could find only 4 labor hours that correlated with the dates of the rental. Per questioning the Company responded that the only labor involved with the generator is for setting it up, filling it occasionally with fuel and removing it from the site when complete. Otherwise it is unattended.

The Company supplied the support for materials and overhead for the additional invoice described as a Large Water Withdrawal in the amount of \$14,780. All LBD timesheets for labor hours were provided and recalculated. Audit found no exceptions with the above.

Account 311 – Pumping Equipment

The Company supplied invoices for two pumps totaling \$12,913 for wells #SR3 and SR4. Per the Company, \$136 of materials were returned to inventory. Overhead

charged by Lewis Builders Development, Inc. on materials was 20% in 2007 and 21% in 2008.

Summary:

Additions to Settlers Ridge Plant	\$103,605
Additional Settlers Ridge Invoice	<u>\$14,780</u>
Total	\$118,385

Total costs audited by the PUC for the New Wells is \$118,385.

DW 10-241
Hampstead Area Water Company, Inc.
Petition for Acquisition of Assets and for Approval of Financing –
Settlers Ridge

EXHIBIT 2: HAWC RESPONSES TO STAFF
DATA REQUESTS – SET 1

The Lewis Group of Companies

54 Sawyer Avenue - Atkinson, New Hampshire 03811 (603)362-5333 - (603)362-4936 (fax)

September 22, 2010

Marcia Thunberg, Esq.
NH PUC
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

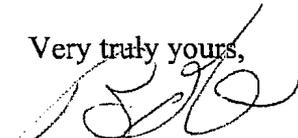
RE: DW-10-241
Answers to Staff Data Requests – Set 1

Dear Marcia:

Please find enclosed the Company's Answers to Staff Data Requests – Set 1 regarding the above referenced docket. An electronic copy via email has also been sent to you and all persons on the service list.

Thank you for your assistance in this regard. Don't hesitate to call me if you have any questions.

Very truly yours,



Robert C. Levine, Esq.
General Counsel

Enclosure
RCL/ja

cc: HAWC Mgrs.
Stephen St. Cyr
10-241 Service List

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**Hampstead Area Water Company
DW 10-241
Staff Data Requests – Set 1
ANSWERS**

**Date request received: 09-21-10
Staff 1-1**

**Date of Response: 09-24-10
Witness: Charlie Lanza**

Please describe the basic purpose(s) and function(s) of the proposed pump station within the HAWC core system.

ANSWER:

HAWC recently permitted a water source for the Walnut Ridge Water System at the Settlers Ridge well site for up to 192,960 gallons per day. The basic purpose and function of the proposed pumping and treatment station will provide the infrastructure to utilize the permitted wells and provide the system with necessary clean drinking water, both for potable and fire flow needs.

**Hampstead Area Water Company
DW 10-241
Staff Data Requests – Set 1
ANSWERS**

**Date request received: 09-21-10
Staff 1-2**

**Date of Response: 09-24-10
Witness: Charlie Lanza**

Given the substantial costs in Exhibit 1 (for example, \$171,275 for Pumping Equipment), please provide basic information on the number, type, size and cost basis of proposed:

- a) Pumps;
- b) Treatment units; and
- c) Storage units.

ANSWER:

- a) The proposed pumping and treatment station includes the following pumps:
 - a. (2) 15hp Booster Pumps - \$13,216.50
 - b. (2) 7.5hp Jockey Pumps - \$6,608.50
 - c. (2) 15hp Submersible Well Pumps – Already Installed
- b) The proposed pumping and treatment station includes the following treatment units:
 - a. (2) 72” Greensand Filter Vessels - \$65,000.00
 - b. Chlorine Pump & Chem. Tank - \$1,040.00
- c) The proposed pumping and treatment station includes the following storage:
 - a. Either (2) 30,000 gal. Steel Atmospheric Storage tanks or (3) 20,000 Steel Atmospheric Storage Tanks - \$89,700.00

**Hampstead Area Water Company
DW 10-241
Staff Data Requests – Set 1
ANSWERS**

Date request received: 09-21-10

Date of Response: 09-24-10

Staff 1-3

Witness: Charlie Lanza

Who designed or will design the pump station?

ANSWER:

The pumping and treatment station has been preliminarily designed in house and the final design will be completed by a Professional Engineer licensed in the State of New Hampshire.

**Hampstead Area Water Company
DW 10-241
Staff Data Requests – Set 1
ANSWERS**

Date request received: 09-21-10

Date of Response: 09-24-10

Staff 1-4

Witness: Charlie Lanza

Please indicate which of the items in Exhibit 1 were or will be put out to bid. To the extent any of the items were not or will not be put out to bid, please explain.

ANSWER:

The following items will be put out to bid for purchase:

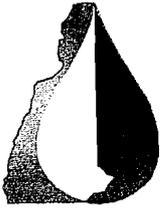
- a) Control Panel
- b) SCADA & Electrical Work
- c) Greensand Filters
- d) Piping Components & Appurtenances
- e) All Pumps
- f) Atmospheric tanks

The following items were put out to bid for budget purposes:

- a) Control Panel
- b) Greensand Filters
- c) All Pumps
- d) Atmospheric tanks

DW 10-241
Hampstead Area Water Company, Inc.
Petition for Acquisition of Assets and for Approval of Financing –
Settlers Ridge

EXHIBIT 3: HAWC RESPONSES TO STAFF
DATA REQUESTS – SET 2



HAMPSTEAD AREA

WATER COMPANY, INC

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936
www.hampsteadwater.com

December 7, 2010

Marcia Thunberg, Esq.
NH PUC
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

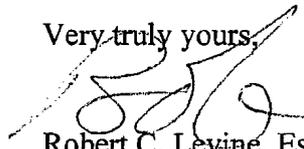
RE: DW-10-241
Answers to Staff Data Requests – Set 2

Dear Marcia:

Please find enclosed the Company's Answers to Staff Data Requests – Set 2 regarding the above referenced docket. An electronic copy via email has also been sent to you and all persons on the service list.

Thank you for your assistance in this regard. Don't hesitate to call me if you have any questions.

Very truly yours,



Robert C. Levine, Esq.
General Counsel

Enclosure
RCL/ja

cc: HAWC Mgrs.
Stephen St. Cyr
10-241 Service List

DW 10-241
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION FOR ACQUISITION OF ASSETS AND APPROVAL OF FINANCING –
SETTERS RIDGE
ANSWERS TO STAFF DATA REQUESTS – SET 2

Date request received: 11-30-10

Date of Response: 12-07-10

Staff 2-1

Witness: Charlie Lanza

Regarding Page 2 of the Pre-filed Direct Testimony of Stephen P. St. Cyr: It is stated that the pumphouse will be completed by the end of the year (2010).

- a) Please indicate the current status of the pumphouse construction.
- b) As a result of any completed construction, please update the costs provided by the Company in its original filing.

ANSWER:

- a) The Company is not planning to commence construction prior to approval.
- b) Not applicable.

DW 10-241
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION FOR ACQUISITION OF ASSETS AND APPROVAL OF FINANCING –
SETTERS RIDGE
ANSWERS TO STAFF DATA REQUESTS – SET 2

Date request received: 11-30-10

Date of Response: 12-07-10

Staff 2-2

Witness: John Sullivan/Stephen P. St. Cyr

Regarding Schedule SPS-5 to the Pre-filed Direct Testimony of Stephen P. St. Cyr:

- a) For Plant Account #'s 304, 309, 311, 320 and 333: Please provide a more detailed analysis consisting of the underlying equipment and the anticipated costs for such. If any of the equipment or costs need to be updated (see Staff 2-1(b)) please include this information in the Company's response.
- b) Please explain the use of a 5.00% depreciation rate (20 years) for \$55,120 of cost contained in Account # 320, Treatment Equipment. Please explain the use of a 13.33% depreciation rate (7.5 years) for the remaining \$13,780 of cost contained in Account # 320.

ANSWER:

- a) See attached.
- b) The manufacture estimates that the equipment, i.e., the vessels, valves, piping, underdrains, etc. has a 20 year life. The manufacture estimates that the media, which has to be replaced every 7 – 8 years, has a life of 7.5 years.

**HAMPSTEAD AREA WATER COMPANY, INC.
SETTLERS RIDGE PUMP STATION COSTS**

PUC CODE	Item of Work	Unit	Quantity	Sub Totals
311	Electrical service upgrade down Pope Rd	each	1	\$45,500
311	Panel	each	1	\$32,500
311	Electrical service, conduit, lighting, heater, permits	each	1	\$19,500
311	SCADA	each	1	\$9,750
311	Generator	each	1	\$44,200
	All Electrical Work @ PS		1	\$151,450
309	Supply Mains from wells to Bldg.	l.f.	850	\$11,050
309	8" Discharge Main	l.f.	700	\$27,300
304	GSG Supply & USA Bluebook Materials	each	1	\$12,675
304	Structure & Site Work	each	1	\$42,250
304	Frame, Roof, Doors	each	1	\$9,750
	Pump Station Structure(including plumbing) Total			\$103,025
320	Chlorine pump & barrell	each	1	\$1,040
320	Pressure Tanks (2) 119 - gal.	each	2	\$2,860
320	Marlo Greensand tanks (2) 72"	each	2	\$65,000
	Water Treatment Total			\$68,900
311	Booster Pump (2)-15 hp 3 ph	each	2	\$5,200
311	Well Wire	l.f.	850	\$5,525
311	Jockey Pump (2) 7.5 hp Jockey	each	2	\$9,100
311	Well Pumps (2) 10 hp well pump 3 ph	each	1	
	Pumping Equipment Total			\$19,825
330	Atmospheric Storage Tank (2)-30,000 Gal.	each	2	\$89,700
	Total Pumping & Treatment Station =			\$432,900

DW 10-241
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION FOR ACQUISITION OF ASSETS AND APPROVAL OF FINANCING –
SETTERS RIDGE
ANSWERS TO STAFF DATA REQUESTS – SET 2

Date request received: 11-30-10

Date of Response: 12-07-10

Staff 2-3

Witness: John Sullivan

Regarding Schedules SPS 1-1 through SPS-8 to the Pre-filed Direct Testimony of Stephen P. St. Cyr:

- a) As a result of Staff's recently completed audit relative to the Settler's Ridge Wells (see Final Audit Report dated 11/23/10) and the Company's responses to Staff 2-1 and 2-2 above, please provide updated schedules.
- b) Please provide the anticipated rate impact resulting from the increase in the Company's revenue requirement as well as please provide the resultant increase in annual rates likely to be paid by an average residential ratepayer.

ANSWER:

- a) The Company will provide updated schedules when actual data is available. The Company accepts the audit report as submitted. The difference between the well costs in the filing and the well costs subject to the audit are not significantly different to update the schedules and the rate impact.
- b) The Company would rather wait until actual data is available in order to have a more accurate determination of any anticipated rate impact.

DW 10-241
HAMPSTEAD AREA WATER COMPANY, INC.
PETITION FOR ACQUISITION OF ASSETS AND APPROVAL OF FINANCING –
SETTLERS RIDGE
ANSWERS TO STAFF DATA REQUESTS – SET 2

Date request received: 11-30-10

Date of Response: 12-07-10

Staff 2-4

Witness: Stephen P. St Cyr

Regarding Page 6 of the Pre-filed Direct Testimony of Stephen P. St. Cyr: With respect to the Company's present and anticipated heavily weighted debt position relative to shareholder equity:

- a) Does the Company have a plan to reduce its debt position to a more reasonable level? Please explain.
- b) A number of the loans that the Company has with LBDI include a variable interest component tied to the WSJ Prime Rate. In the event that the Prime Rate increases substantially, please explain the Company's anticipated course of action.

ANSWER:

- a) The Company has converted \$2,000,952 debt to equity to date. As profitability and the economy improve the Company will continue to look for opportunities to reduce debt.
- b. A substantial increase in the prime rate may become a component of a future rate case. However given the fact that the notes have 3 and 5 year adjustments periods and staggered as to such anniversary dates, the impact does not appear to be substantial at this time.