

THE STATE OF NEW HAMPSHIRE



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**PUBLIC UTILITIES COMMISSION**

21 S. Fruit Street, Suite 10  
Concord, N.H. 03301-2429

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August 31, 2011

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

Re: DW 11-162, Hampstead Area Water Company, Inc.  
Petition to Issue Long Term Debt

Dear Ms. Howland:

On July 20, 2011, Hampstead Area Water Company, Inc. (HAWC) filed a petition, pursuant to RSA 369, for authority to issue long term debt. HAWC is a regulated water utility pursuant to RSA 362:2 and 362:4 and serves approximately 2,948 customers in various communities in southern New Hampshire. HAWC also submitted the testimony of Stephen P. St. Cyr, a financial consultant for HAWC.

HAWC seeks approval to borrow \$1,200,000 from TD Bank. TD Bank has offered a note with a five year maturity and a 20 year amortization schedule. In its petition, HAWC indicated that the interest rate would be at a rate 250 basis points above the five year Federal Home Loan Bank Classic Advance Rate, which was 2.58% as of March 18, 2011. Thus, the interest rate on this loan was expected to be 5.08%. Updated information provided in discovery reveals that the noted index rate has dropped to 1.75% as of August 23, 2011, yielding a rate to HAWC of 4.25%. After review of the petition and testimony, and propounding discovery requests to HAWC, Staff recommends approval of the petition through the issuance of an order *nisi*.

The proceeds of this new debt would be used to retire a number of current debt issues on the books of HAWC. Six existing notes to HAWC's affiliate, Lewis Builders Development, Inc. (LBDI) and one note to Centerview Hollow Land Co., Inc., also an affiliate, will be paid off. Exhibit 1 to the petition lists these notes, which together total about \$750,000. The remaining \$450,000 of the new loan from TD Bank will be used to pay for the recently completed construction on the company's Settlers Ridge pump station. This pump station was built in order to distribute water from new wells which

were added to this system in the Town of Atkinson as a result of recommendations from HAWC's hydrology study<sup>1</sup>. This new financing at a rate of 4.25% will lower the company's interest costs by approximately \$20,030 annually.

Under the proposed terms, HAWC is responsible for all closing costs incurred in the transaction. HAWC estimates total closing costs, including origination fee, title insurance, and legal costs, to be about \$7,200. Staff submitted discovery requests to HAWC, and the responses are attached to this letter. A commitment letter from TD Bank is attached to the response to Staff 1-5. HAWC is required to grant a security interest in all assets of the company.

As indicated earlier, Staff recommends approval of HAWC's financing in this docket through the issuance of an order *nisi*. The terms of the refinancing are favorable and serve to reduce HAWC's overall cost of capital. Cash flow savings will accrue to the company now, and the reduced cost of capital will be reflected in future customer rates. Staff recommends approval.

Staff has provided a copy of this letter to the Office of the Consumer Advocate.

If there are any questions regarding this, please let me know.

Sincerely,

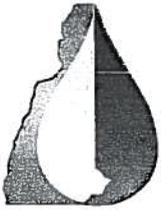


Mark A. Naylor  
Director, Gas & Water Division

Attachments  
cc: Service list

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<sup>1</sup> HAWC received approval from the Commission to finance this pump station, and new wells, in Order No. 25,195 (February 18, 2011) in Docket No. DW 10-241. That financing was not consummated. HAWC indicates that the wells were acquired using funds from HAWC's own cash flow.



# HAMPSTEAD AREA

## WATER COMPANY, INC

54 SAWYER AVENUE, ATKINSON, NH 03811

TEL: 603.362.4299 FAX: 603.362.4936  
www.hampsteadwater.com

August 3, 2011

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

RE: DW-11-162  
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

Enclosures  
RCL/ja

cc: HAWC Mgrs.  
Stephen St. Cyr  
10-134 Service List

**DW 11-162**  
**HAMPSTEAD AREA WATER COMPANY, INC.**  
**REQUEST FOR FINANCING**  
**STAFF DATA REQUESTS – SET 1**

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**Staff 1-1**

In Order No. 25,195 issued 2/18/11 in DW 10-241, HAWC was authorized to borrow up to \$551,285 from Lewis Builders Development, Inc. (LBDI) partly to finance construction of the Settlers Ridge pumphouse. Was that financing consummated? If so please provide a copy of the executed documents.

**Answer:**      The financing was not consummated.

**DW 11-162**  
**HAMPSTEAD AREA WATER COMPANY, INC.**  
**REQUEST FOR FINANCING**  
**STAFF DATA REQUESTS – SET 1**

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**Staff 1-2**

If the financing authorized in DW 10-241 was not consummated, please indicate how the company has financed the construction costs.

**Answer:** HAWC paid approximately \$67,000 out of its own cash flow. The balance of \$291,000 is due to Lewis Builders.

**DW 11-162**  
**HAMPSTEAD AREA WATER COMPANY, INC.**  
**REQUEST FOR FINANCING**  
**STAFF DATA REQUESTS – SET 1**

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**Staff 1-3**

The financing authorized in DW 10-241 also provided for acquisition of four new wells at Settlers Ridge. Has the company acquired those wells?

**Answer:** Yes. Those wells were acquired by HAWC prior to the DW 10-241 petition.

**DW 11-162**  
**HAMPSTEAD AREA WATER COMPANY, INC.**  
**REQUEST FOR FINANCING**  
**STAFF DATA REQUESTS – SET 1**

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**Staff 1-4**

If HAWC has acquired the wells, what was the source of the funds to acquire them?

**Answer:** HAWC paid for the wells out of its own cash flow.

**DW 11-162**  
**HAMPSTEAD AREA WATER COMPANY, INC.**  
**REQUEST FOR FINANCING**  
**STAFF DATA REQUESTS – SET 1**

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**Staff 1-5**

Re: St. Cyr testimony page 3, has the company received a commitment letter from TD Bank? If so, please provide. If not, please forward as soon as received.

**Answer:** We have not received a formal commitment letter from TD Bank. It is expected any time now. We will forward to the PUC as soon as we receive it.



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August 23, 2011

Christine Lewis Morse  
The Hampstead Area Water Company  
c/o Lewis Builders, Inc.  
54 Sawyer Avenue  
Atkinson, NH 03811

RE: Commitment Letter – HAWC new loan

Dear Chris:

I am pleased to inform you that TD Bank, N.A. (Bank), has approved a new term loan to The Hampstead Area Water Company. Please note that this letter does not address every single term and condition normally contained in the documentation for these types of loans. New legal documentation will be prepared to formally document the following:

**The Hampstead Area Water Co. Inc., - New Note**

**Borrower:** The Hampstead Area Water Company

**Amount:** \$1,200,000.00

**Payments:** Monthly principal and interest payments will be due and payable on the monthly anniversary date of the loan beginning one month from the date of the closing. Payments will be based on a twenty (20) year amortization schedule and the rate at closing.

**Interest Rate:** The interest rate will be based on the Five Year FHLB Classic Advance rate, plus 2.50% fixed for five years. The rate will be fixed at closing.

*For illustration purposes only, if the closing were today's date, the Five Year FHLB Classic Advance Rate is 1.75%, which would result in a loan rate of 4.25% for five years.*

**Maturity Date of Loan:** The loan will mature five years from closing.

**Collateral:**

The loan will be secured by all business assets of the borrower.

Also, the secured guaranty of the corporate guarantor will be secured by a junior mortgage on Atkinson Apartments and an assignment of leases and rents.

**Guarantees:**

The loan will be unconditionally guaranteed by Christine Lewis Morse, The Christine Lewis Morse Revocable Trust and Lewis Builders, Inc.

**Prepayment Penalty:**

Yield maintenance. The yield maintenance fee would be calculated at the time of prepayment and would be based on the amount prepaid, the time remaining until the end of the fixed rate period, and prevailing interest rates at the time of prepayment.

**Financial Reporting:**

1) Annual CPA reviewed statement and federal tax return of Lewis Builders, Inc. and Subsidiaries within 120 days of fiscal year end.

2) Annual and quarterly management prepared financial statements within 120 and 45 days, respectively of period end.

2) Personal financial statement and personal tax return of all personal guarantors within 120 days of calendar year end (or evidence of extension of tax filing).

**Financial Covenants:**

1) Debt Service Coverage (DSC) covenant will mirror that of the existing HAWC loan and is as follows:

Minimum Post-Distribution Debt Service Coverage (DSC) ratio of 1.25x.

DSC is defined as ((EBITDA of Lewis Builders, Inc. and Subsidiaries, LESS distributions/dividends, +/- non-recurring items), PLUS (EBITDA of The Hampstead Area Water Company, LESS distributions/dividends, +/- non-recurring items)), DIVIDED BY ((Lewis Builders, Inc and Subsidiaries Prior Period CMLTD + actual interest expense), PLUS (The Hampstead Area Water

expense), PLUS (The Hampstead Area Water Company's Prior Period CMLTD ) + actual interest expense).

Non-recurring items will include other income/expenses that are not part of the normal ongoing operations of the company, as determined by the Bank.

2) During the life of the loan, loan to value (LTV) will not exceed 60%. Testing will encompass the values of the primary collateral and the real property granted as security by the Guarantors. The denominator of the LTV ratio will be the total loans secured by the collateral properties.

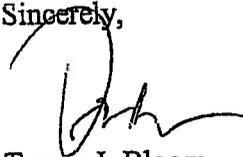
The intention of the above is to be a global covenant for all TD loans. The value includes the three apartment complexes, Sargent Woods and Atkinson Country Club. The total exposure includes all commitments (including the new \$1.2 million to HAWC) to Lewis Builders, Inc., and Subsidiaries, and The Hampstead Area Water Company.

**Other Conditions:**

Borrower pays all closing costs associated with the new loan to HAWC;

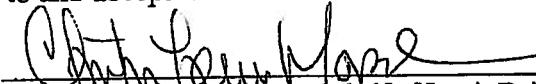
TD Bank appreciates the opportunity to service your banking needs.

Sincerely,

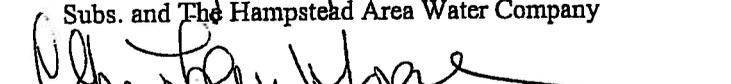


Trevor J. Bloom  
Senior Vice President

Agreed to and accepted:

By:   
Christine Lewis Morse, on behalf of Lewis Builders, Inc and  
Subs. and The Hampstead Area Water Company

D 8/23/11

By:   
Christine Lewis Morse, individually as guarantor

D 8/23/11