

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 11-226

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Authority to Issue Long Term Debt

Order *Nisi* Approving Petition

ORDER NO. 25,299

December 8, 2011

I. BACKGROUND

On October 6, 2011, Hampstead Area Water Company, Inc. (HAWC) filed a petition with the Commission seeking authority to borrow up to \$180,000 in long term debt pursuant to RSA 369:1. HAWC proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (NHDES). In support of its petition, HAWC filed the testimonies of Harold Morse, President of HAWC, and Stephen P. St. Cyr, financial consultant for HAWC. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-226.html>.

The purpose of HAWC's proposed financing is to replace 100 service lines, which run from the main water distribution line to the shutoffs, in its core system within the Town of Atkinson. HAWC has experienced water losses in excess of 25% in its Walnut Ridge and Hampstead Area water systems over the past five years. The service lines that HAWC is seeking to replace are located within its Walnut Ridge system; a number of which have been in service

for as many as 45 years. HAWC has performed a number of leak repairs to this portion of its system over the past 5 to 10 years. The NHDES informed HAWC that if its water loss is not reduced to below 15% by the spring of 2012, it may be subject to an enforcement action unless an appropriate waiver is obtained. The 100 service lines to be replaced represent approximately 34% of those contained within the original Walnut Ridge system. HAWC believes that these service replacements are an appropriate step towards reducing water losses as well as reducing energy costs required for pumping. HAWC anticipates commencing this replacement project in March 2012 and completing it by October 2012.

The proposed SRF loan is for a 20-year term at an interest rate currently anticipated to be 2.864%. During construction, the advances made by the NHDES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence.

On December 1, 2011, Staff filed a recommendation that the Commission approve HAWC's petition. Staff stated that it concurred with the need for the proposed improvements as well as the appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff also indicated that the future rate impact on customers would be minimal based on the low interest rate of the loan. Finally, Staff stated that the project would help to address the ongoing water loss issues that stem from its aging Walnut Ridge system.

II. COMMISSION ANALYSIS

Pursuant to 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). As we have previously noted, “certain 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.” *In re PSNH*, Docket No. DE 09-033, Order No. 25,050, 94 NH PUC 691, 699 (2009).

HAWC has asked to borrow \$180,000 to finance service replacements in its Walnut Ridge water system with the intent to address ongoing water loss issues resulting from breaks and leaks in the distribution system. The magnitude of HAWC’s water losses are of great concern to the NHDES and NHDES’ support of the project is evidenced by its offering of SRF financing to HAWC. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation. Our review of the use of the proceeds of the funds is thus on the more routine end of the spectrum. The proposed project appears to be a reasonable step toward remedying HAWC’s water loss issues in this portion of its system. Accordingly, we find the use of the proceeds of the financing to be reasonable and appropriate.

Concerning the terms and the effect of this financing on rates, the loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate is expected to be 2.864% per year in order to provide financing for the project at the lowest possible cost to

customers. The project is also not expected to have a significant impact on customer rates. We, therefore, find the terms and the effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find that HAWC has demonstrated that the proposed project will enable it to provide better service to its customers at an advantageous cost. We find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing. Although HAWC did not specifically request it, our recent experience with petitions for SRF loans is that a security interest in the borrower's assets may be required. In this light, we provide our approval, pursuant to RSA 369:2, for HAWC to provide a security interest in its real and personal property, if needed to secure the loan. Also, sometimes the actual interest varies on SRF loans from the expected interest rate. This approval is given on the condition that the final terms are not substantially different from those proposed in HAWC's filing and that, if such terms vary significantly, including an interest rate that is greater than 3.9% per year, HAWC shall seek Commission approval of such terms. We will issue this order on a *nisi* basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in HAWC's petition and for the purpose as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that HAWC shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than December 18,

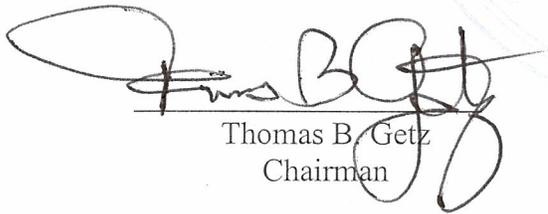
2011 and to be documented by affidavit filed with this office on or before January 9, 2012; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than December 27, 2011 for the Commission's consideration; and it is

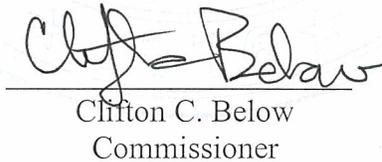
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than January 3, 2012; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective January 9, 2012, unless HAWC fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this eighth day of December, 2011.



Thomas B. Getz
Chairman

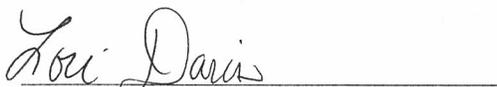


Clinton C. Below
Commissioner



Amy L. Ignatius
Commissioner

Attested by:



Lori Davis
Assistant Secretary

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.