

DW 05-106

AQUARION WATER COMPANY OF NEW HAMPSHIRE

Petition for Authority to Issue General Mortgage Bonds

Order *Nisi* Approving Financing Request

ORDER NO. 24,482

July 1, 2005

I. BACKGROUND

Aquarion Water Company of New Hampshire (Aquarion) is a regulated public utility providing water service to approximately 8,400 customers in Hampton, North Hampton, and Rye, New Hampshire. On June 3, 2005, Aquarion filed with the New Hampshire Public Utilities Commission (Commission) a petition, pursuant to RSA 369, seeking authority to issue General Mortgage Bonds in an aggregate principal amount of up to \$5,900,000. In support of its petition, Aquarion also filed testimony of Linda M. Discepolo, Director of Rates and Regulation for Aquarion Water Company of Connecticut, an affiliate of the New Hampshire utility.

Aquarion proposes to issue the bonds under an Indenture of Mortgage with Wachovia Bank, National Association, as successor trustee to The Fidelity Bank, as Trustee (the Trustee), dated May 1, 1968, as amended and supplemented. The Bonds will be issued through a private placement, which Aquarion would like to consummate on or prior to August 17, 2005, and will carry a fixed interest rate of 6.21%. The Bonds will reach final maturity in thirty years. Aquarion anticipates that the Bonds will be issued pursuant to a Bond Purchase Agreement with GNA Corporation or its affiliates. Aquarion will use the proceeds of the Bonds to reduce the level of its short-term debt with Aquarion Company, Aquarion's indirect parent.

According to the petition, when combined with an anticipated equity contribution of \$1,300,000 from Aquarion Company, Aquarion's short-term debt will be reduced from 37.53% to 3.75% of its net fixed plant, which is less than the 10% cap prescribed by Puc 608.05. Petition at 2. Aquarion first sought Commission approval to exceed the 10% limit on August 7, 2003. At that time, Aquarion requested the Commission waive application of Puc 608.05 and allow Aquarion to exceed the 10% cap. Prior to that request, on April 25, 2002, Aquarion's short-term debt increased when it redeemed \$2,700,000 of General Mortgage Bonds carrying an interest rate of 7.48% and \$125,000 of 7% Cumulative Preferred Stock. The Commission granted the waiver request by secretarial letter dated October 1, 2003. The Commission cautioned Aquarion that it expected compliance with Puc 608.05 in the future. On April 1, 2005, Aquarion increased its short-term debt again when it redeemed \$1,972,440 of General Mortgage Bonds carrying an interest rate of 9.92%. Even though Aquarion paid a redemption premium of \$83,160, it states the instant financing request will reduce its total interest expense by \$872,078. Petition at 11. Presently, Aquarion has \$8,000,000 in outstanding short term borrowings from Aquarion Company. Petition at 7.

As a part of its financing request, Aquarion also proposes to amortize the redemption premium, along with \$27,118 of unamortized issuance costs, over the term of the new bond issue. Aquarion states that Section 610.02(d) of the Uniform System of Accounts for Water Utilities allows amortization of such expenses as a deferred asset but only if approved by this Commission.

On June 15, 2005, Commission Staff (Staff) filed a letter recommending the Commission approve Aquarion's requested financing. Staff stated that it had reviewed

Aquarion's filing and conducted discovery, copies of which were attached to Staff's recommendation. Staff concluded that the proposed issuance of \$5,900,000 in General Mortgage Bonds at an interest rate of 6.21% was in the public interest. In support of this conclusion, Staff cited the fact that a significant portion of the short-term debt outstanding was incurred to redeem higher-rate long-term issues held by Aquarion, including \$2,700,000 of 7.48% debt and \$1,972,440 of 9.92% debt. The proposed bonds would reduce Aquarion's embedded cost of debt substantially, from 8.37% to 6.88%. Additionally, Staff noted the proposed bonds would reduce Aquarion's short-term debt to less than 10% of its net fixed plant and thus Aquarion would come into compliance with Puc 608.05. Aquarion's capital structure, exclusive of short-term debt, would reflect a debt to equity ratio of 53/47. Lastly, Staff stated this ratio would be an improvement from the current ratio of 31/69, which is more costly to ratepayers. For these reasons, Staff recommended the Commission approve Aquarion's financing request.

II. COMMISSION ANALYSIS

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State may issue evidences 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." The New Hampshire Supreme Court has further provided that 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 in insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205, 211 (1984).

In the instant docket, Aquarion proposes to refinance existing short-term debt through the issuance of up to \$5,900,000 in General Mortgage Bonds. The Bonds will have a

30-year term and carry a fixed interest rate of 6.21%. Aquarion obtained Commission approval in 2003 to exceed the short-term debt limit contained in Puc 608.05. A significant portion of that short-term debt was incurred in the redemption of two long-term debt issues, including bonds carrying interest rates of 7.48% and 9.92%. By using short-term debt to redeem these higher interest issues and seeking out lower-cost long-term debt, Aquarion will be able to reduce its embedded cost of long-term debt significantly, from 8.37% to 6.88%. This cost savings will benefit customers. By reducing its level of short-term debt to less than 10% of its net fixed plant, Aquarion will come into compliance with Puc 608.05, which is what the Commission had directed Aquarion to do. In addition, the proposed financing will substantially improve Aquarion's debt-to-equity ratio from 31/69 to 53/47. This element additionally benefits customers in that equity, which is more expensive than debt, is substantially reduced. Having reviewed Aquarion's filing, Staff's recommendation letter, and discovery, we conclude that Aquarion's proposed financing will benefit customers and is in the public interest. Accordingly, we will approve Aquarion's proposed financing.

We next address Aquarion's request for Commission approval to amortize the April 1, 2005 \$83,160 redemption premium relating to the redemption of \$1,972,440 in General Mortgage Bonds, as well as the \$27,118 in unamortized issuance costs related to the \$1,972,440 bonds. As indicated by Aquarion in its petition, this accounting treatment is allowed under Account 186 Deferred Debits in our Uniform System of Accounts for Water Utilities but can only be done by express Commission approval. Aquarion incurred these costs in refinancing a higher-debt issue, and the unamortized issuance costs were accelerated as a result. Since this treatment is allowed under Commission-approved accounting standards, and the result is more

beneficial to Aquarion and customers, we find it in the public interest and we will approve Aquarion's request to amortize the redemption premium and issuance costs.

Having reviewed the record in this matter, we find Aquarion's proposed financing and requested amortization reasonable and consistent with the public interest. Accordingly, we will approve Aquarion's petition.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that Aquarion Water Company of New Hampshire is granted authority, pursuant to RSA 369, to issue up to \$5,900,000 in General Mortgage Bonds under the terms and conditions set forth in its filing; and it is

FURTHER ORDERED, that Aquarion is granted authority to amortize over the 30-year term of the Bonds the redemption premium and unamortized issuance expenses associated with the early redemption of the \$1,972,440 Bonds; and it is

FURTHER ORDERED, that Aquarion 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 July 13, 2005 and to be documented by affidavit filed with this office on or before August 1, 2005; 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 July 20, 2005 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 July 27, 2005; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective August 1, 2005, unless Aquarion fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that Aquarion shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transaction contemplated hereby no later than 30 days after the transaction is consummated.

By order of the Public Utilities Commission of New Hampshire this first day of July, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary