

**DW 05-086**

**HAMPSTEAD AREA WATER COMPANY, INC.**

**Petition for Approval to Drill and Operate Wells Inside of Proposed Franchise Area,  
Approval of Financing, Approval of Acquisition of Assets and Approval of Permanent  
Rates**

**Order *Nisi* Approving Financing**

**ORDER NO. 24,589**

**February 10, 2006**

**I. BACKGROUND**

Hampstead Area Water Company, Inc. (HAWC) is a New Hampshire public utility as defined by RSA 362:2 and 362:4 and currently serves approximately 2,500 customers in various communities throughout southeastern New Hampshire. On May 2, 2005, HAWC filed with the New Hampshire Public Utilities Commission (Commission) a petition relative to a new water system intended to serve the Angle Pond Woods condominium development located off Odd Fellows Road in the Town of Hampstead, New Hampshire. In its petition, HAWC seeks authority to: 1) drill and construct two well fields within the Town of Hampstead; 2) acquire the assets of the water system serving the Angle Pond Woods condominium development; 3) issue debt in order to finance the acquisition of the water system assets; and 4) charge permanent rates to the customers served by the Angle Pond Woods water system. In support of its petition, HAWC also submitted copies of agreements, schedules, and pre-filed testimony of Peter A. Lewis, President of HAWC; John Sullivan, controller for HAWC; and Oliver Poirier, P.E. of HAWC.

Angle Pond Woods is a 116 unit condominium development within HAWC's existing franchise area.<sup>1</sup> Angle Pond Woods is presently owned by Centerview Hollow Land Company, LLC (CVH) and Lewis Builders Development, Inc. (LBDI). CVH owns the land and LBDI is in the process of constructing the condominium units as well as the associated water system. According to the petition, both companies are affiliated with HAWC through a common ownership interest. HAWC intends to connect the Angle Pond Woods development with HAWC's Hampstead Core system.

HAWC filed with its petition an executed water rights and easement deed between CVH and HAWC and an executed Contract to Purchase Water Utility Assets & Provide Domestic Water Service, both dated April 28, 2005. Petition at 20. The assets include two wells, pumping and treatment station with appurtenances required by the system, transmission and distribution mains as well as services and meters. Pursuant to the petition, the purchase price is determined by multiplying the number of residential units, 116, by \$1,000 per service connection within the Angle Pond Woods development, plus \$37,700 for meters for a total purchase price of \$153,700. This is the amount HAWC proposes to finance. According to the filing, the contractors cost to build the water system is estimated at \$461,660. HAWC plans to treat the difference between \$461,660 and \$153,700, or \$307,960, as Contributions in Aid of Construction (CIAC).

HAWC seeks to finance the purchase of the Angle Pond Woods water system assets through LBDI, a related company. HAWC filed with its petition an executed promissory note, dated November 29, 2005, whereby HAWC promised to pay LBDI the sum of \$153,700 over 240 equal installments at an interest rate equal to 2.25% above the Prime Rate published in

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<sup>1</sup> The Commission granted HAWC franchise approval by way of Order No. 24,520, dated September 22, 2005.

the Wall Street Journal on the last business day of the quarter preceding Commission approval to be adjusted every three years thereafter. All outstanding principal and interest on the note will be due and payable on the twentieth anniversary of the note.

HAWC also seeks authority to drill two wells and charge Angle Pond Woods customers the Hampstead Core rates.

On April 27, 2005, the Commission received correspondence from the Hampstead Board of Selectmen indicating it had received notification of the proposed petition regarding the Angle Pond Woods water system. No subsequent correspondence has been received from the Hampstead Board of Selectmen relative to this docket.

On December 12, 2005, Staff submitted a letter to the Commission recommending the Commission approve HAWC's petition, subject to the condition that the Commission Audit Staff examine the Continuing Property Records (CPRs) for the Angle Pond Woods water system within 60 days of final completion of construction of the water system. Staff stated an audit of the CPRs was not performed because construction of the water system had not yet been completed. Staff concurred with HAWC's request that \$153,700 be allowed as rate base and that \$307,960 of the estimated construction cost of \$461,660 be treated as CIAC, subject to confirmation by the Commission's Audit Staff. Staff estimated HAWC's initial interest rate to be 9.00%, given the then current Prime Rate.

## **II. COMMISSION ANALYSIS**

In the instant petition, HAWC requests Commission authorization to construct two wells within HAWC's current franchise and establish permanent rates for the Angle Pond Woods customers. HAWC previously received franchise approval for this area. See *Hampstead*

*Area Water Company, Inc.* Order No. 24,520 (September 22, 2005). The franchise right and associated obligation to serve necessarily include operation of wells and other system assets within the franchise. Accordingly, we find additional approval to construct wells is not necessary. Secondly, as to rates, HAWC has previously received approval to charge the existing tariff rates on a temporary basis. By way of Order No. 24,556 (December 2, 2005), we approved temporary rates in the amount of \$25.00 per quarter and \$3.16 per 100 cubic feet of water consumed, effective November 30, 2005, on a service rendered basis. These temporary rates will remain in effect until the final outcome of Docket No. DW 05-112, HAWC's pending rate case. Accordingly, we find that separate approval of rates for Angle Pond Woods is not necessary.

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 to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205, 211 (1984).

As previously stated, HAWC proposes to use the proceeds of the financing to purchase the Angle Pond Woods water system assets from CVH and LBDI. Based upon our review of the record, we find that the proposed purchase price is reasonable, especially in light of the fact that the estimated construction cost for these assets is estimated at \$461,660 and that approximately \$307,960 of that amount will be recorded as CIAC and thus will not be included in rate base for the determination of future rates. This methodology of determining the purchase

price and treatment of CIAC is consistent with Order No. 24,362 (August 19, 2004) in Docket No. DW 02-128, which reviewed HAWC's purchase of other assets from LBDI. We agree with Staff's recommendation regarding an audit of HAWC's CPRs for the Angle Pond Woods system once the system is complete and final construction costs are known. Such an examination would ensure that HAWC's plant accounting is accurate and in compliance with the Uniform System of Accounts for Water Utilities. For the foregoing reasons, we find the use of the proposed funds is consistent with the public good.

We next review the reasonableness of the proposed financing rate and its impact on ratepayers. According to the proposed terms of the note payable, HAWC will pay LBDI the sum of \$153,700 in 240 equal installments including interest at a rate equal to 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the quarter preceding Commission approval in this docket and then adjusted on that anniversary date every three years thereafter. Staff anticipates the initial interest rate to be approximately 9.00%. We find that the terms of the financing under consideration in the instant docket are consistent with those found in other financings by HAWC that the Commission has recently approved and that these terms will not have an adverse impact on future customer rates. Based on our review of the record and discussion above, we find the proposed financing for the purchase of the assets of the Angle Pond Woods water system in the amount of \$153,700 from LBDI is consistent with the public good. Accordingly, we approve the proposed financing.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that subject to the effective date below, Hampstead Area Water Company, Inc.'s request to finance the purchase of the Angle Pond Woods water system

assets from Centerview Hollow Land Company, L.L.C. and Lewis Builders Development, Inc. under the terms and conditions stated in Hampstead Area Water Company, Inc.'s petition, is approved; and it is

**FURTHER ORDERED**, that within 60 days from the date of completion of construction of the Angle Pond Woods water system, Hampstead Area Water Company, Inc. shall make available for review by the Commission Staff the Continuing Property Records pertaining to the Angle Pond Woods water system assets; and it is

**FURTHER ORDERED**, that Hampstead Area Water Company, Inc. 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 February 20, 2006; and to be documented by affidavit filed with this office on or before March 13, 2006; 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 February 27, 2006 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 March 6, 2006; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective March 13, 2006, unless Hampstead Area Water Company, Inc. 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 Hampstead Area Water Company, Inc. shall file a compliance tariff with the Commission on or before March 13, 2006, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this tenth day of February, 2006.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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ChristiAne G. Mason  
Assistant Executive Director & Secretary