

DW 06-104

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Financing Authority and Step Adjustment to Rates

Order Approving Stipulation Agreement

ORDER NO. 24,728

February 2, 2007

I. BACKGROUND

Hampstead Area Water Company, Inc. (HAWC) is a regulated water utility that provides water service to approximately 2,700 customers in Hampstead, Atkinson, Chester, Danville, East Kingston, Fremont, Kingston, Nottingham, Plaistow, Salem, and Sandown. On July 31, 2006, HAWC filed with the New Hampshire Public Utilities Commission (Commission) a petition for financing approval and for a step adjustment to rates as the result of additions to plant-in-service.

HAWC requests authority, pursuant to RSA 369, to borrow up to \$267,299 from an affiliated company, Lewis Builders Development, Inc. (LBDI). According to HAWC, these funds would be used: (1) to conduct a hydrology study at the request of the New Hampshire Department of Environmental Services (NHDES); (2) to purchase new billing software; and (3) to purchase three new vehicles. HAWC supplemented its filing with more detailed schedules on August 7, 2006 and September 18, 2006. In support of its financing request, HAWC stated that the financing will: 1) allow management to obtain important information regarding its current water resources and potential new water sources so as to formulate a strategy to plan for future water supply needs; 2) provide HAWC with funds to replenish its fleet of vehicles; and 3) enable HAWC to upgrade its account management software.

HAWC also requests a step adjustment to its rates which is designed to recover its investment in the assets acquired with the proposed financing. In support of its request, HAWC stated that the step increase would enable it to: 1) recover the cost of the debt occasioned by the proposed additions to plant; 2) avoid a delay of the hydrology study and thus avoid possible water supply capacity problems; 3) avoid problems with deteriorating vehicles and subsequent operations; 4) avoid limitations in customer service and billing problems; and 5) avoid the need to pursue a general rate increase.

On September 12, 2006, the Commission held a duly noticed Prehearing Conference. No persons requested intervention in this docket. Thereafter, Staff of the Commission (Staff) and HAWC conducted discovery pursuant to an approved procedural schedule. Ultimately, Staff and HAWC filed a stipulation agreement with the Commission on October 31, 2006. The Commission held a hearing on the merits on December 12, 2006 at which time Staff and HAWC presented the stipulation agreement.

II. TERMS OF STIPULATION AGREEMENT

As stated above, a portion of the financing proceeds is intended to fund a hydrology study. The hydrology study is anticipated to cost approximately \$162,069 and the study is being undertaken at the request of NHDES. According to a letter from NHDES filed with HAWC's petition, the study is needed because the Atkinson system has become a larger integrated system with multiple sources. Ex. 1 at 7. The change in size has required HAWC to comply with additional, more expensive regulations relating to groundwater withdrawals and source water protection. NHDES has specifically requested HAWC to conduct a hydrology study to: 1) assess the capacity of the existing ground water sources; 2) assess the ground water supply capacity

versus demand; 3) assess the source water protection program; 4) assess how to optimize existing ground water sources; 5) evaluate demand management measures; and 6) explore and develop new sources of water supply. Ex. 1 at 8.

HAWC has selected Hydroterra Environmental Services, LLC to perform the hydrology study. Hearing Transcript of December 12, 2006 (12/12/06 Tr.) at 5 lines 22-24. HAWC testified at hearing that a similar study is expected to be performed for HAWC's Hampstead system, however, that study is not part of this docket. 12/12/06 Tr. at 13 lines 5-13. According to the stipulation, HAWC agrees to mitigate the cost of the Atkinson study by seeking grants and assistance from NHDES personnel. Ex. 3 at 4. HAWC has agreed to report to the Commission its success in this regard by February 1, 2007. HAWC has also agreed to report to the Commission regarding the results and proposals stemming from the study itself within three months of completion. Id.

A second proposed use of the financing proceeds relates to new billing and management software. The new software, to be purchased from Continental Utility Solutions, Inc., is expected to cost \$20,230. 12/12/06 Tr. at 16 line 19. The software is expected to address limitations of HAWC's existing software, such as the inability to generate company wide reports. The new software will eventually allow customers to receive, examine, and pay their bills through the company's website. This access to billing information will benefit customers and the ability to pay bills via the internet will improve HAWC's billing efficiency.

The third proposed use of the financing proceeds relates to HAWC's purchase of three vehicles to replace existing vehicles dating from 1998 to 2000. The new vehicles are expected to cost a total of approximately \$81,000 and will be financed either by LBDI or through Ford

Motor Credit, whichever offers the more advantageous terms. The sum of the three components, plus anticipated financing costs of \$4,000, yields a total proposed financing amount of \$267,299.

Staff and HAWC recommend that the Commission approve a financing arrangement through HAWC's affiliate, LBDI, with the possible exception of the vehicle costs if HAWC can obtain cheaper financing through Ford Motor Credit. Staff and HAWC recommend an interest rate equal to the Wall Street Journal Prime Rate as of September 30, 2006, plus 2.25%, which equates to 10.50%. Staff and HAWC recommend the loan be payable within five years in sixty equal monthly installments of principal and interest. At hearing, Staff testified that these terms were similar to terms previously approved by this Commission. 12/12/06 Tr. at 19 lines 8-12.

Staff and HAWC have determined the additional revenue requirement associated with the financing for these three projects is approximately \$65,624. Attachment A to the stipulation details the methodology used for calculating the additional revenue requirement associated with the expenditures. This revenue requirement is lower than the \$73,021 estimate contained in the original petition and is expected to result in a future increase in current rates by 5.83%. According to the stipulation, prior to any rate increase HAWC agrees to file with the Commission proof of the expenditures and acquisition of the software and vehicles. Once the Commission reviews and approves the filing, HAWC will implement the rate increase to customers.

Lastly, Staff and HAWC recommend the Commission allow HAWC to recover the costs of pursuing the step adjustment and authorize HAWC to bill customers for those costs in the form of a surcharge levied over a period not to exceed one year. As with the rate increase,

HAWC agrees to submit documentation of these costs to the Commission for its review and approval prior to imposition of the surcharge.

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.” 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).

In the case at hand, HAWC has requested authorization to borrow up to \$267,299 in order to finance a hydrology study, replace three vehicles, and purchase new billing software. The record indicates that: the hydrology study is necessary for HAWC’s continued compliance with the increasingly complex state and federal requirements related to the provision of drinking water; HAWC needs to replace three aging vehicles; and the new billing software is expected to provide significant benefits to both the company and its customers. After reviewing the evidence and testimony presented at hearing, we find that the use of the financing proceeds to conduct the hydrology study, replace aging vehicles, and install new billing software is consistent with the public good.

We next review the reasonableness of the proposed interest rate. Staff and HAWC have calculated the proposed interest rate based on the prime rate published in the *Wall Street Journal* on September 30, 2006, plus 2.25%. That rate is 10.50%. As Staff correctly noted at hearing, we have, in the past, approved interest rates on financing requests from HWAC with a margin of

2.25% above prime. See, *Hampstead Area Water Company, Inc.*, 89 NH PUC 179 (2004). We have also approved interest rates for other small water companies with margins ranging from 1.5 to 3.0% over the index. See, e.g. *Lakes Region Water Company, Inc.*, Order No. 24,401 (November 19, 2004), 3% over FHLBB rate; *Tilton and Northfield Aqueduct Company*, Order No. 24,169 (May 9, 2003), 2.75% over FHLBB rate; *West Swanzey Water Company*, Order No. 24,206, (September 5, 2003), 1.5% over prime rate.

Based on our review of the record, we find that the proposed interest rate of 10.50% on the amount to be financed through LBDI for the proposed term of five years is reasonable and we will approve it. We note that should any terms of the financing vary substantially from those proposed above, we reserve the right to conduct further review of those terms.

We next turn to the rate impact to customers. We normally review changes to rates in the context of general rate proceedings pursuant to RSA Chapter 378. However, the three expenditures proposed in this docket became known too late to be considered in HAWC's full rate proceeding in Docket DW 05-112. 12/12/06 Tr. at 15 lines 5-6, and the record in this docket demonstrates that the expenditures cannot reasonably be delayed without creating other potential negative impacts. First, HAWC is unable to add new customers unless it conducts the hydrology study. Ex. 1 at 7. Second, the vehicles HAWC seeks to replace are aging and unreliable. 12/12/06 Tr. at 14 lines 6-9. Third, HAWC's present software does not enable it to generate companywide reports and management information for evaluation; something that is necessary now that HAWC has consolidated rates. The new software will enable HAWC to generate reports on the number of customers, usage, revenue, and other basic information that HAWC states it needs to operate on a total company basis. 12/12/06 Tr. at 16 lines 6-16. Also, the

impact these expenditures have on HAWC's revenue requirement are substantial enough to merit consideration outside of a general rate proceeding.

Staff and HAWC propose that the Commission consider the step increase to rates after the expenses underlying this rate increase are reviewed and approved by this Commission. At that time, we will make our final determination as to the justness and reasonableness of the rate increase. We believe these provisions adequately protect customers. The step increase in rates has the benefit of helping reduce, or at least delay, the costs of a more extensive rate proceeding that HAWC could pursue absent the step adjustment mechanism. Accordingly, we approve the step adjustment provision proposed by Staff and HAWC.

Based upon the foregoing, it is hereby

ORDERED, that the stipulation presented by Commission Staff and Hampstead Area Water Company, Inc. is hereby APPROVED; and it is

FURTHER ORDERED, that Hampstead Area Water Company, Inc.'s request to finance up to \$267,299 is APPROVED; and it is

FURTHER ORDERED, that Hampstead Area Water Company, Inc. shall file corroborating documentation with the Commission within 60 calendar days after the completion of the hydrology study, purchase of the three vehicles described above, and the purchase of billing software described above.

By order of the Public Utilities Commission of New Hampshire this second day of
February, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary