

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 08-033

HAMPSTEAD AREA WATER COMPANY

Petition for Approval of Financing

Order *Nisi* Granting Approval

ORDER NO. 24,864

June 20, 2008

I. BACKGROUND

Hampstead Area Water Company (HAWC), which serves approximately 2,900 customers in southeastern New Hampshire, filed a petition on March 5, 2008 for approval of financing for proposed additions and upgrades to its system as well as for two additional wells. HAWC is seeking to borrow \$165,330 from its affiliate, Lewis Builders Development, Inc. (LBDI), in order to finance three distinct projects.

The first project involves SCADA system upgrades to facilities which will include Village Drive, the Shop Water Tank, and Pit Hatch in Atkinson and Colby Pond in Danville. HAWC anticipates that the installation of these upgrades will occur by year's end at an estimated cost of \$48,597. The second project involves the creation of a hydraulic system model as well as GIS water system mapping to analyze the interconnection of its Hampstead and Atkinson water systems. HAWC estimates the hydraulic system model will cost approximately \$45,000 and that the GIS system mapping will cost approximately \$39,000, for a combined cost of \$84,000. It anticipates that these items will be completed by year's end.

The third project, already completed, involved the drilling of two new wells in Atkinson at Bryant Woods and Dearborn Ridge to address supply issues at those systems. The cost of the

Bryant Woods well was \$8,515 and the cost of the Dearborn Ridge well was \$24,218, for a total cost of \$32,733.

HAWC proposes that separate promissory notes from LBDI be issued. The note for the \$48,597 SCADA system upgrades will be payable over a term of ten years, the note for the hydraulic study and GIS model will be in the amount of \$84,000 and payable over a term of five years, and the note for the two new wells will be in the amount of \$32,733 and payable over a term of twenty years.

HAWC originally indicated that each note would carry an interest rate of 8.25 percent, based on the prime rate as reported in the *Wall Street Journal* at the time of HAWC's petition, 6.00 percent, plus an additional 2.25 percent. At the request of Commission Staff (Staff), HAWC agreed to revise the interest rate to 2.25 percent above the prime rate in effect as of the last day of the calendar quarter prior to the date of the issuance of the Commission's order in this docket and adjustable every three years thereafter. The prime rate in effect as of March 31, 2008 was 5.25 percent; thus the initial interest rate on the three notes would be 7.50 percent.

On June 11, 2008, Staff recommended approval of the petition, having concluded that the proposed uses for the financing were in the public interest. Staff further stated that the proposed terms of the financing, as revised by HAWC, were reasonable and consistent with the terms of other recent financings approved for HAWC by the Commission. Staff also noted that HAWC's debt-to-equity ratio is heavily weighted towards debt due to its negative equity position but that the owners of HAWC have made significant equity contributions to the company in recent years and are committed to providing additional capital if necessary. In addition, HAWC has recently filed a notice of intent to seek a rate increase, which Staff suggests may improve HAWC's debt-to-equity position and enable it to better meet its debt obligations.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities may issue evidences of indebtedness payable more than twelve months after the date thereof only if the Commission finds the proposed issuance to be consistent with the public good. In such an inquiry, the Commission looks beyond actual terms of the proposed financing and must also consider the planned use of the proceeds and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984).

We have reviewed HAWC's intended use of the proceeds of the financing and find that HAWC has demonstrated that each project will enable it to better provide a safe and adequate supply of water to its customers. Accordingly, we find that the proposed uses of the financing are for the public good.

We likewise conclude that the proposed financing terms are consistent with other HAWC financings approved by the Commission and will not have an unduly adverse impact on future customer rates. Lastly, we have determined that concerns about HAWC's capital structure are best addressed in the context of HAWC's upcoming rate case.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Hampstead Area Water Company, Inc.'s request for financing in an amount up to \$165,330 from Lewis Builders Development, Inc. under the terms and conditions discussed previously in this order is APPROVED; and it is

FURTHER ORDERED, that within thirty (30) days from the execution of the respective financings, HAWC shall file a copy of the executed promissory notes as well as any supporting documentation with the Commission; and it is

FURTHER ORDERED, that HAWC 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 and shall send a copy of same to the town clerks of Hampstead, Atkinson and Danville, such actions to occur no later than June 30, 2008 and to be documented by affidavit filed with this office on or before July 21, 2008; 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 7, 2008 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 14, 2008; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective July 21, 2008, 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; and it is

By order of the Public Utilities Commission of New Hampshire this twentieth day of June, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Lori A. Normand
Assistant Secretary