

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 10-134

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Approval of Financing and Step Increase

Order *Nisi* Approving Financing, Step Increase to Rates, and Costs

ORDER NO. 25,159

October 25, 2010

APPEARANCES: Robert C. Levine, Esq., for Hampstead Area Water Company, Inc. and Marcia A. B. Thunberg, Esq., for Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

The procedural history of this matter is more fully described in *Hampstead Area Water Company, Inc.*, Order No. 24,728, 92 NH PUC 30 (2007). In that order, the Commission approved the request of Hampstead Area Water Company, Inc. (HAWC) to borrow up to \$267,299 at an interest rate of prime plus 2.25%, or 10.50%, over a five-year term. A large portion of these funds were to be used to conduct a hydrology study related to HAWC's groundwater permit application to the New Hampshire Department of Environmental Services (DES), along with the purchase of three new vehicles and billing software. The Commission found the use of the proceeds of the financing to be consistent with the public good. The Commission also approved HAWC's request to pursue a step increase to its rates, subject to later review and approval by the Commission, of the costs associated with the hydrology study. In HAWC's general rate case, *Hampstead Area Water Company, Inc.*, Order No. 25,000 (August 4, 2009) in Docket No. DW 08-065, the Commission approved a lowering of the interest rate to 5.5%. On April 20, 2010, HAWC filed to recover its costs and also filed a motion to increase the amount of the financing to \$356,275.

HAWC stated that the increase was due to increased expenses associated with the hydrology study and DES permitting process. HAWC stated that the recovery of costs associated with the vehicles and billing software were already addressed in its general rate case and thus are no longer part of its step increase request. To satisfy the financing payments, HAWC seeks to increase its annual revenue requirement by \$97,647 or 6.82%. It proposes to collect this additional revenue by increasing its consumption charge by \$0.43 per one hundred cubic feet of water consumed.

The Commission issued an order of notice on May 24, 2010 for this docket and held a prehearing conference on June 29, 2010. Thereafter, Staff and HAWC conducted discovery pursuant to an approved procedural schedule and ultimately reached a settlement on all the issues. Staff and HAWC filed a Stipulation Agreement on September 1, 2010. There are no intervenors in this docket. The Office of the Consumer Advocate initially participated in this docket but withdrew on June 22, 2010.

II. SUMMARY OF STIPULATION AGREEMENT

A. FINANCING

Staff and HAWC request that the Commission modify Order No. 24,728 and authorize HAWC to borrow \$303,311 from its affiliate, Lewis Builders Development, Inc. (LBDI) to finance the hydrology study, permitting expenses, and related assets placed in service. Staff and HAWC request the Commission approve an interest rate equal to the Wall Street Journal Prime Rate as of March 31, 2009 plus 2.25%, or 5.50%, adjusted every three years, and that the loan be payable within 15 years in 180 equal monthly installments of principal and interest.

B. STEP ADJUSTMENT

Staff and HAWC request that the Commission approve a step increase to rates to allow HAWC to recover costs associated with the hydrology study, the permitting process, and related assets. This step increase would raise revenues by \$43,824 or 3.06%. Staff and HAWC recommend that the rate of return applied in the calculation of the step adjustment be 5.74%. Staff and HAWC state the rate of return is based on a 5.50% interest rate and financing costs of \$10,188. Staff and HAWC request the Commission approve an increase to HAWC's consumption rate by \$0.19 per one hundred cubic feet. According to

Staff and HAWC, an average residential customer using 8,800 cubic feet of water annually would see an increase of \$1.39 in their average monthly bill. Staff and HAWC state the assets associated with the financing are prudent, used and useful.

C. COSTS

HAWC seeks to recover \$20,377 in costs. Staff and HAWC recommend that one half of these costs be considered financing costs and be added to the cost of the debt and be recovered over the life of the debt. Consistent with the Commission's past recognition that such costs ought to be recoverable, Staff and HAWC recommend that the remaining one-half of the costs be considered step adjustment costs and be recovered from customers via a one-time surcharge in the amount of \$3.46.

III. 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 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). Since the Commission has previously found that the use of the financing proceeds to conduct the hydrology study, as required by DES, was consistent with the public good, we will thus consider Staff and HAWC's proposed changes to the approved financing terms.

Staff and HAWC request approval to: increase the financing amount from \$267,299 to \$303,311; increase the term from five years to fifteen years; and recover proceeding costs from customers. HAWC explained in its motion that the increased financing amount is necessary to cover the increased costs associated with the lengthy DES permitting process and extensive community participation in that permitting process. Motion at 2. HAWC noted that the 2006 estimate did not include three wells at a cost of \$70,142. We find these explanations to be reasonable and note that we deferred ruling on the final costs associated with the hydrology

study in Docket No. DW 06-104 because the costs were estimates. The costs are now final, Staff has reviewed them, and they are fully detailed in the stipulation. We approve these costs as reasonable.

With respect to extending the term of the loan from five to fifteen years, we note that the lower interest rate and the extension of the term serves to lower HAWC's monthly payments and hence its revenue needs, which is a benefit to customers. Staff and HAWC estimated in Docket No. DW 06-104 that HAWC's volumetric rate could increase by \$0.25 per 100 cubic feet. The instant stipulation is lower and requests HAWC's volumetric rate increase by \$0.19 per 100 cubic feet. The estimated impact on the average customers' bill is \$1.39 per month. We find this rate increase to be just and reasonable in light of the benefits to HAWC and its customers of the hydrology study and groundwater permits obtained from DES.

Regarding the Company's expenses arising from this proceeding, the Commission has recognized that certain costs associated with seeking rate relief are appropriate for recovery from customers and we review those costs on a case-by-case basis. We find that HAWC's request to recover \$10,188 in costs associated with increasing its annual revenue requirement by \$43,824 to cover its obligations under the \$303,311 loan is reasonable. We further find that its proposal to recover those costs in the form of a one-time surcharge of \$3.46 to customers is just and reasonable. For the foregoing reasons, we approve Staff and HAWC's requests. We 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 the stipulation entered into by Staff and HAWC is adopted and approved; and it is

FURTHER ORDERED, that HAWC's request for authority to enter into financing of up to \$303,311 and to increase its annual revenue requirement by \$43,824 is approved; and it is

FURTHER ORDERED, that HAWC is authorized to increase its present \$4.55 per one hundred cubic feet consumption charge by \$0.19 and to collect a one-time surcharge for costs from customers in the amount of \$3.46; and it is

FURTHER ORDERED, that HAWC shall cause a copy of this Order *Nisi* to be published once in a newspaper of circulation in those portions of the state where operations are conducted, such publication to be no later than November 3, 2010 and to be documented by affidavit filed with this office on or before November 24, 2010; and it is

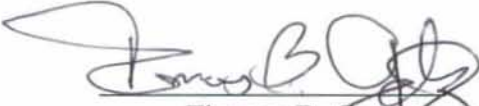
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than November 10, 2010 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than November 17, 2010; and it is


FURTHER ORDERED, that this Order *Nisi* shall be effective November 24, 2010, 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

FURTHER ORDERED, that HAWC file a compliance tariff within 10 days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of
October, 2010.



Thomas B. Getz
Chairman




Clifton C. Below
Commissioner



Amy L. Ignatius
Commissioner

Attested by:



Debra A. Howland
Executive Director

