

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 11-162

HAMPSTEAD AREA WATER COMPANY, INC.

Petition to Issue Long Term Debt

Order *Nisi* Approving Long Term Debt

ORDER NO. 25,272

September 28, 2011

I. BACKGROUND

Hampstead Area Water Company, Inc. (HAWC) is a regulated public water utility pursuant to RSA 362:2 and 362:4 serving approximately 2,948 customers in communities in southern New Hampshire. On July 20, 2011, HAWC filed a petition seeking authority, pursuant to RSA 369, to issue long term debt. In support of the petition, HAWC filed schedules and the testimony of Stephen P. St. Cyr, a financial consultant to HAWC. The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2011/11-162.html>.

HAWC seeks approval to borrow \$1,200,000 from TD Bank in order to refinance existing loans totaling \$750,000 and to finance a new loan of \$450,000 for a recently completed pump station at HAWC's Settlers Ridge water system. TD Bank has offered a note with a five-year maturity and a 20-year amortization schedule. The loan would carry an interest rate of 250 basis points above the five-year Federal Home Loan Bank Classic Advance Rate. That rate was

1.75% as of August 23, 2011 and would yield a rate to HAWC of 4.25%. HAWC estimates its closing costs to total about \$7,200.

HAWC seeks to use the proceeds of the financing to retire \$750,000 in existing notes; six notes are to Lewis Builders Development, Inc. (LBDI) and one note is payable to Centerview Hollow Land Co., Inc., both HAWC affiliates. The current interest rate on all of these notes is 5.5%. The balance of the new loan, \$450,000, will be used to finance construction costs for the Settlers Ridge pump station. This pump station was constructed to distribute water from new production wells that were added as a result of recommendations from HAWC's hydrology study. *See Hampstead Area Water Company, Inc.*, Order No. 24,728, 92 NH PUC 30 (2007) (approval of financing for hydrology study). The Commission approved the financing for this project on February 18, 2011 by Order No. 25,195 but that financing was not consummated. Instead, HAWC financed the project through its affiliates.

Under the terms of the commitment letter from TD Bank, HAWC must provide a security interest in all of its assets, pursuant to RSA 369:2. The loan will further be secured by personal guarantees of Christine Lewis Morse, President of HAWC, and by Lewis Builders, Inc. HAWC estimates that this new financing will result in lowering the Company's overall interest expense by about \$20,030 annually.

On August 31, 2011, Staff recommended the Commission approve HAWC's request. Staff stated it had reviewed the filing, had conducted discovery, and concluded that the terms of the financing are favorable, would result in cash flow savings to the company, and would benefit customers by reducing HAWC's overall cost of capital when it seeks new rates.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities engaged in business in this State may issue evidence 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, and the effect on rates, in order to insure that the public good is protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have previously noted, “certain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing.” *In re Public Service Company of New Hampshire*, Order No. 25,050, 94 NH PUC 691, 699 (2009). We find that a limited review of the proposed refinancing is appropriate in this case.

HAWC asks to borrow \$1,200,000 to refinance existing loans in the amount of \$750,000, as well as to finance construction costs relating to its Settlers Ridge system. The financing and capital improvements regarding Settlers Ridge emanate from the hydrology study conducted in 2007 and have been the subject of prior Commission approvals as stated above. The new loan will be for a five year term with a 20-year amortization and will reduce the interest rate on the existing debt from 5.50% to 4.25%, based on the index rate in effect at the time TD Bank provided its commitment for the loan. This rate reduction will result in annual cash savings of about \$20,030 and will reduce HAWC’s cost of capital when it seeks new rates. This reduction in cost of capital will benefit customers.

Having reviewed HAWC's petition and Staff's recommendation, we find that the proposed financing will benefit both HAWC and its customers and the terms of the refinancing are consistent with the public good. Therefore, we approve the amount and purpose of the financing. Further, we will grant HAWC's request to provide a security interest in its assets, as authorized in RSA 369:2. Our approval is conditioned on the final terms not differing substantially from those proposed in HAWC's filing. If such terms vary substantially, we will require HAWC to seek additional Commission approval. We will 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 subject to the effective date below, the proposed financing, under the terms and conditions contained in HAWC's petition and for the purpose noted herein, is hereby APPROVED; and it is

FURTHER ORDERED, that HAWC is authorized, pursuant to RSA 369:2, to provide a security interest in its real and personal property to TD Bank for purpose of undertaking the long term debt contemplated in this order; and it is

FURTHER ORDERED, that HAWC 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 October 7, 2011 and to be documented by affidavit filed with this office on or before October 28, 2011; and it is

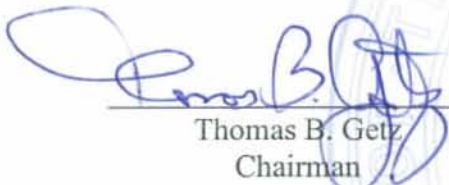
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states


the reason and basis for a hearing no later than October 14, 2011 for the Commission's consideration; and it is

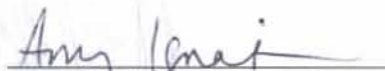
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than October 21, 2011; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective October 28, 2011, 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.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of September, 2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director