

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

HAMPSTEAD AREA WATER COMPANY

PETITION FOR AUTHORITY TO BORROW LONG TERM DEBT,
TO CONSTRUCT WATER SYSTEM INTERCONNECTION,
APPROVAL TO EXTEND FRANCHISE AREA, AND FOR STEP RATE INCREASE

DW 08-088

**STIPULATION BETWEEN HAMPSTEAD AREA WATER COMPANY, INC., THE
STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION AND THE
OFFICE OF THE CONSUMER ADVOCATE**

Hampstead Area Water Company (HAWC) is a regulated public water utility subject to the jurisdiction of the New Hampshire Public Utilities Commission (Commission) and the New Hampshire Department of Environmental Services (NHDES). HAWC, the Staff of the Commission (Staff), and the Office of the Consumer Advocate (OCA) (collectively, the Signatories) enter into this Stipulation Agreement (Agreement) to resolve all issues relating to HAWC'S petition for authority to finance the construction of an interconnection for its Hampstead core and Atkinson core systems, for expansion of its existing franchise, and for application of HAWC's consolidated rates to the customers within the new proposed franchise area.

In this Agreement, the Signatories recommend that the step adjustment to the existing rate, which HAWC requested to service the proposed financing, be transferred to HAWC's general rate case, DW 08-065, for a determination. At this time, the Signatories anticipate that the General Rate Case will be concluded by the end of July 2009, which is before HAWC currently anticipates that it will complete construction of the interconnection and submit the final construction costs for review by Staff and the OCA, and consideration by the Commission.

Consequently, the step adjustment requested in this docket, DW 08-088, would not be necessary in order to provide HAWC with the ability to repay the financing but rather such adjustment to rates could be considered in the current General Rate Case.

A. PROCEDURAL HISTORY

1. On June 27, 2008, HAWC submitted a filing to the Commission requesting approval for authority to borrow long term debt, to construct a water system interconnection, approval to extend franchise area, and for a step rate increase. The petition was accompanied by the pre-filed testimony of Harold Morse, President of HAWC, and Stephen P. St. Cyr, a consultant to HAWC. HAWC proposed to finance an amount up to \$1,100,885.00 to design and construct the interconnection of its Hampstead and Atkinson core systems. The petition also requested a step adjustment to HAWC's rates at such time as the Project was complete and in service to customers. HAWC anticipates the project to be completed by fall of 2009. Under the terms of the SRF loan, HAWC will not be required to begin payment until six months after it completes construction. HAWC anticipated a rate increase of \$.32 per 100 cubic feet of its consumption charge to service the debt. The Petition also requested to expand the existing Atkinson franchise.
2. On July 30, 2008 the Commission issued an Order of Notice, establishing a Prehearing Conference for September 3, 2008 to be followed by a Technical Session and a requirement that all persons wishing to intervene do so by August 29, 2008.
3. On August 7, 2008, the Office of the Consumer Advocate (OCA) intervened in this Docket as well as Docket DW 08-065, HAWC's General Rate Case, and filed a Motion to Consolidate the request for step adjustment in this docket with the pending general rate case, DW 08-065, to which HAWC filed an Objection on August 15, 2008.

4. On August 20, 2008, John Wolters and Carol Grant filed a Petition to Intervene.
5. Through a letter dated August 29, 2008, HAWC's witness, Stephen St. Cyr, filed revised schedules to include an interconnection grant that the DES notified HAWC about in December 2007. These revisions reduced the proposed revenue requirement and the proposed rates.
6. On September 3, 2008, a prehearing conference was held before the Commission which was immediately followed by a technical session attended by the Commission Staff (Staff), OCA, the intervenor Wolters and HAWC for the purpose of setting a procedural schedule. On September 3, 2005, Staff filed a letter with the Commission on the behalf of the other parties proposing an agreed-upon procedural schedule.
7. On September 23, 2008, a secretarial letter was issued which granted approval of the proposed procedural schedule and granted the intervention by Wolters and Grant on the issue of franchise expansion.
8. On October 3, 2008, HAWC filed a Motion to amend its petition, requesting that the Commission approve the application of the prevailing rates to the requested franchise area, if approved.
9. On October 10, 2008, the Town of Atkinson filed a Motion to Intervene on the issue of franchise area size.

B. BACKGROUND

1. HAWC serves more than 2,900 customers in three main divisions and several outlying satellite systems: Hampstead core, Atkinson core, and Lancaster Farm. The Hampstead division includes the Hampstead core system and also satellite systems in Hampstead, Fremont, Plaistow, Kingston, East Kingston, Sandown, Chester, Danville

and Nottingham. The Atkinson division includes the Atkinson core system and the Dearborn Ridge System. The Lancaster Farm division serves customers in Salem. In support of the interconnection project, HAWC asserts that, in the Atkinson core system, particularly during summer peak periods, daytime demand often puts certain wells under heavy stress. HAWC believes that construction of the interconnection will help temper the effects of peak demand over the Hampstead and Atkinson core systems, and will increase system reliability.

2. HAWC intends to finance the Project through the use of Drinking Water State Revolving Funds (DWSRF) administered by NHDES. HAWC has received preliminary approval from NHDES to borrow the entire budget amount of \$1,100,885. The DWSRF loan would bear an interest rate no higher than 3.488%, would have a twenty year term, and would accrue interest at 1% interest on any advances during construction.
3. The DWSRF financing is contingent in part upon HAWC receiving authority from the Commission, pursuant to RSA 369, to borrow these funds. According to HAWC, NHDES has requested that HAWC receive Commission approval no later than November 4, 2008 in order to maintain its eligibility to borrow the funds.
4. At the date of this Agreement, the material terms and conditions of the proposed financing were understood by HAWC and DES, but the financing has not yet been finalized. To date, NHDES has not provided loan documents setting forth any other terms and conditions of the financing. The Signatories understand that the financing terms will not deviate substantially from the terms described herein.

C. PARTIES AND SCOPE OF THE STIPULATION

1. This Stipulation is entered into by Staff, OCA, and HAWC in this Docket.

2. This Stipulation constitutes Staff, OCA, and HAWC's recommendation to the Commission with respect to this Docket.
3. Under this Stipulation, Staff, OCA, and HAWC agree to this joint submission to the Commission as resolution of the issues specified herein only.
4. This Stipulation shall not be deemed an admission by Staff, OCA, and HAWC that any allegation or contention in this proceeding by Staff, OCA, or HAWC, other than those specifically agreed to herein, is true and valid. This Stipulation shall not be deemed to foreclose any Party from taking any position in any other proceedings.
5. Staff, OCA, and HAWC agree that all supporting documentation should be admitted as full exhibits for the purpose of consideration of this Stipulation, and be given whatever weight the Commission deems appropriate.

D. STIPULATION

In consideration of the foregoing statements, and the following stipulations, HAWC, Staff, and the OCA state as follows:

1. The Staff and HAWC agree that the design and construction of the interconnection serving the Hampstead core and Atkinson core systems is a prudent means of providing adequate, safe and reliable water service to those customers. The Project as proposed represents prudent management and good utility practice. The OCA takes no position on these issues.
2. The Staff, HAWC and the OCA agree that the rate, terms and conditions of the proposed financing the Project, as outlined in paragraph B (2), are reasonable and should be considered in the public good and HAWC should be authorized to finance a sum up to \$1,100,885 for the Project as described above. HAWC agrees to submit

the final terms of the financing to the Commission and the OCA as soon as they are available. If the final terms and conditions of the financing vary materially from those described above, such new or modified terms and conditions shall be subject to Commission approval.

3. The Staff, HAWC and the OCA agree to transfer HAWC's request for a step adjustment to the pending general rate case, DW 08-065, for inclusion in the determination of the amount that HAWC be allowed to increase its rates. HAWC estimates that the information required for the Commission's decision on the step adjustment will be available on or before the fall of 2009. HAWC agrees to submit a filing to the Commission and the OCA for this purpose, detailing the actual costs of the Project, the return on the capital assets of the Project, the depreciation expense, and the direct expenses to be recovered through the step increase. HAWC agrees to use its best efforts to provide the Commission, Staff, and the OCA with all relevant information required of it as expeditiously as possible in order to consider its request for a step adjustment.
4. If for some reason the Commission's determinations in the general rate case, DW 08-065, are not final before the completion of construction of the interconnection and the filing by HAWC of the information listed in paragraph D.3., the Signatories agree that HAWC may renew its request for consideration of step adjustment to the then prevailing rate separately from the general rate case. The Signatories agree that, if HAWC takes this step, the Staff and the OCA are not restricted in any way by this agreement to renew the positions taken during this proceeding. If HAWC renews its request for a step adjustment pursuant to this paragraph, the Staff and HAWC agree

to, and the OCA presently takes no position but reserves its rights to take a position at that time on, the following:

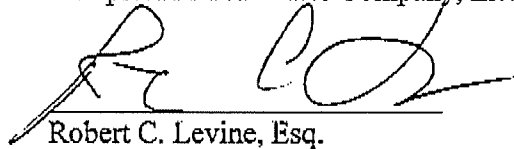
- a. The step adjustment shall be reconciled with the Commission's final revenue requirement determination in the general rate case such that there will be no double recovery of any costs.
 - b. The additional revenues to be received from this step adjustment to the rate increase shall be based only on the Project. If HAWC is able to connect new customers as a result of the interconnection, the pro forma revenues from those new customers will be considered in the calculation of the step adjustment.
 - c. The rate increase shall be effective on a service rendered basis on or after the date on which the relevant capital additions first provide service to the public.
 - d. The rate increase shall be calculated based upon the methodology set forth in Attachment A, using the cost of debt capital for the financing for the particular capital improvements that are the subject of the increase.
 - e. The rate increase shall be contingent on review and approval by the Commission of the costs actually incurred for the Project to confirm that such costs are consistent with HAWC's petition or that any costs in excess thereof were prudently incurred.
5. The Signatories recommend HAWC be allowed to recover its prudent costs and expenses associated with this proceeding, in a manner and over a time period to be determined by the Commission.

6. The Signatories agree that this Stipulation shall not be implemented in such a way that any rate increase resulting from the general rate case will reflect the costs of the Project if the effective date of the new permanent rates (or temporary rates, if applicable) is a date prior to the date the Project is first placed into service to customers.
7. The Signatories defer any recommendation to the Commission on a specific franchise area at the time of the filing of this agreement. It is the Signatories' understanding that HAWC will be offering, at hearing, a franchise area that is amenable to the Town of Atkinson. HAWC and the Town of Atkinson are presently resolving the franchise issue. The Signatories will thus offer their recommendation on the proposed franchise area at hearing. Separate from the exact franchise footprint, the Signatories recommend that the Commission approve the application of HAWC's prevailing rates to this new franchise area.
8. The Signatories agree that the Commission's approval of this agreement is consistent with the public good.
9. HAWC, Staff and OCA respectfully request the Commission approve this Agreement so that HAWC can secure the funds under the DWSRF loan program and commence construction of the Project.

Staff, HAWC, and OCA have caused this Agreement to be duly executed by their respective officers or agents, duly authorized, this 22nd day of October, 2008.

Hampstead Area Water Company, Inc., by:

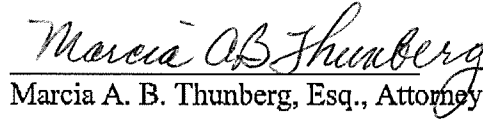
Date: October 22, 2008



Robert C. Levine, Esq.
Attorney for the Company

Staff of the New Hampshire
Public Utilities Commission, by:

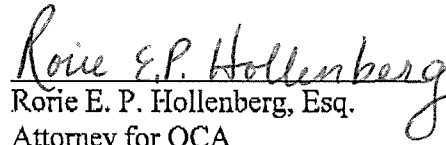
Date: October 22, 2008



Marcia A. B. Thunberg, Esq., Attorney for Staff

Office of the Consumer Advocate, by:

Date: October 22, 2008



Rorie E. P. Hollenberg, Esq.
Attorney for OCA

Hampstead Area Water Company**Attachment A****2008 SRF Financing and Step Increase****Calculation of Revenue Requirement**

Addition to Rate Base:	Estimated <u>2008</u>
Plant Additions:	
Booster/Metering Station	\$38,790
Pumping/Metering Equipment	32,823
Main	<u>1,007,272</u>
Total Addition to Plant	\$1,078,885
Less: Accumulated Depreciation	<u>12,199</u>
Net Plant	\$1,066,686
Add: Cash Working Capital	
Contribution in Aid of Construction:	
Booster/Metering Station	(\$9,698)
Pumping/Metering Equipment	(8,206)
Main	<u>(251,818)</u>
Total Contribution in Aid of Construction	(\$269,721)
Less: Accumulated Amortization	<u>(3,050)</u>
Net CIAC	(\$266,672)
Total Additions to Rate Base	\$800,015
Rate of Return	<u>3.448%</u>
Additional Net Operating Income Required	\$27,585
Add: Operating and Maintenance Expenses	
Depreciation Expense	24,397
Amorization of CIAC	(6,099)
State Property Taxes	7,040
Local Property Taxes	16,843
Business Enterprise Taxes	<u>210</u>
Total Additional Revenue Required	\$69,976
2007 Total Income	<u>\$1,268,877</u>
Total Revenue Requirement after Additions	<u>\$1,338,853</u>
Percentage Increase	<u>5.51%</u>

Note: Amounts in this schedule are estimates and may change upon completion of the interconnection. When the actual amounts are known, the Company will submit such amounts for review and approval.