

THE STATE OF NEW HAMPSHIRE

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May 16, 2012



Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: DW 12-098, Aquarion Water Company of New Hampshire, Inc.
Petition for Approval to Issue General Mortgage Bond

Dear Ms. Howland:

On April 17, 2012, Aquarion Water Company of New Hampshire, Inc. (Aquarion) filed a Verified Petition with the Commission for authority to issue a \$5 million General Mortgage Bond (the Bond). Aquarion is a regulated public utility providing water service to approximately 8,700 customers in Hampton, North Hampton, and Rye. On April 18 Aquarion filed the original signature page to accompany the Verified Petition. On April 25 Aquarion filed its Board of Directors Consent approving the proposed Bond, as well as a copy of the Bond Purchase Agreement and the Ninth Supplemental Indenture. After review of Aquarion's petition, Staff recommends Commission approval.

Aquarion proposes to use the \$5 million proceeds of the Bond to refinance an existing \$4 million debt obligation and for capital improvements within its franchise area. Aquarion has an agreement with CoBank, ACB (CoBank) to borrow the \$5 million on a ten year term at an interest rate of 4.45%. The Bond will be secured by a mortgage on Aquarion's real property located in Hampton, North Hampton, and Rye, and the company's stock in CoBank having a value of \$1,000, which the company is required to purchase upfront at the Bond closing. These security interests are a condition for obtaining the Bond financing.

Aquarion will retire the existing \$4 million debt obligation to its parent company, Aquarion Company, Inc., that was approved by the Commission in 2010. *See Aquarion Water Company of New Hampshire, Inc., 95 NH PUC 48 (2010)*. That debt obligation, which matures in 2015, carries an interest rate of 4.62% and thus the proposed Bond issuance will replace that debt with lower cost financing. Aquarion will use the remaining \$1 million for investment in capital improvements within its franchise area, including capital projects

under its existing Water Infrastructure and Conservation Adjustment (WICA) program approved by the Commission in Docket No. DW 11-238 by Order No. 25,311 (December 30, 2011). Those WICA projects include water main replacement and customer meter replacements.

As asserted in Aquarion's Verified Petition, the proposed loan arrangement with CoBank would provide potential additional benefits to Aquarion and its customers. CoBank is a federally chartered bank and a Government Sponsored Enterprise (GSE) owned by its customers. As a GSE, CoBank issues debt with the implicit full faith and credit of the U.S. Government and enjoys lower borrowing costs, which are passed on to borrowers. As a cooperative, CoBank provides a return through "patronage payments" to its borrowers based on the net margins after payment of preferred stock dividends and certain deductions. CoBank thus targets a refund amount to borrowers each year based on its annual average accruing loan volume. Refunds thus received would provide benefit to customers in future years through the normal ratemaking process.

The company has evaluated its ability to issue this new proposed debt considering the supplemental indentures for the company's currently outstanding general mortgage bonds¹, and believes it satisfies those requirements for issuing new debt. Aquarion estimates its debt issuance costs for this \$5 million bond issue to be about \$70,500 as detailed on Exhibit 2 to the Verified Petition. Aquarion's arrangement with CoBank is conditioned upon closing on the Bond no later than July 6, 2012, and therefore Aquarion requests the Commission issue an order with an effective date on or before June 6, 2012, to allow sufficient time for the thirty-day statutory rehearing period to expire.

Staff has reviewed Aquarion's request in this filing, and recommends Commission approval. Staff issued discovery requests in its review and the company's responses are attached to this letter. As \$4 million of the proposed \$5 million proceeds will be used to retire existing higher-cost debt, customers will benefit. The remaining \$1 million will be used to finance capital additions, including WICA projects, at an interest rate of 4.45%. As illustrated on Exhibit 1 to the Verified Petition, this \$5 million Bond financing will help to reduce Aquarion's weighted cost of debt from 6.20% to 6.04%². This cost reduction can be reflected in Aquarion's upcoming general rate case³.

¹ The company has two series of Bonds currently outstanding, as detailed on Exhibit 1 to the Verified Petition.

² The "debt weighting" percentages depicted for the December 31, 2011 "per books" overall cost of debt as shown on Exhibit 1 are incorrect. Recalculating the cost of debt with the correct percentages reveals a figure of 6.20% as of December 31, 2011 based on then-current outstanding debt issuances.

³ On April 12, 2012 Aquarion filed a Notice of Intent to File Rate Schedules with the Commission, which has been assigned Docket No. DW 12-085. On May 14, Aquarion filed its rate schedules and supporting testimony.

If you have any questions regarding this matter, please let me know.

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachment: Discovery Responses

cc: Service list

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 12-098

Aquarion Water Company's Responses to Staff Data Requests—Set 1

Data Request Received: April 30, 2012
Request No.: Staff 1-1

Date of Response: May 10, 2012
Witness: Donald J. Smiarowski

REQUEST: Exhibit 6 to the petition illustrates total capitalization on a pro forma basis, as of December 31, 2011, of \$22,938,688. What is the company's calculation of its rate base as of that same date?

RESPONSE: As shown below, the Company's calculation of its rate base as of December 31, 2011 is \$22,465,157.

Description	12/31/2011
Plant in Service	\$ 35,549,563
Accumulated Depreciation	(9,165,775)
Net Plant in Service	<u>26,383,788</u>
Add:	
Materials & Supplies	133,351
Prepayments	151,621
Deferred Expenses (net of amortization)	243,427
Working Capital Allowance	205,809
Total Additions	<u>734,208</u>
Less	
Customer Advances	(5,600)
Contributions in Aid of Constructions	(2,283,388)
Reserve for Deferred Taxes	(2,363,851)
Total Deductions	<u>(4,652,839)</u>
Total Rate Base	<u>\$ 22,465,157</u>

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 12-098

Aquarion Water Company's Responses to Staff Data Requests—Set 1

Data Request Received: April 30, 2012
Request No.: Staff 1-2

Date of Response: May 10, 2012
Witness: Donald J. Smiarowski

REQUEST: Paragraph 9 of the petition discusses the company's desire for an order with an effective date no later than June 6, 2012. Is it therefore the company's request that the Commission issue an order nisi no later than May 6, 2012, such that a 30 day period for comments and/or request for a hearing would expire no later than June 6, 2012? Please clarify the company's request in this regard.

RESPONSE: The Company's request for an order with an effective date no later than June 6, 2012 is not a request for the Commission to issue an order *nisi* on or before May 6.

CoBank's commitment to purchase the bond described in the Company's petition is conditioned upon the bond financing closing on or before July 6, 2012. The request for an order with an effective date no later than June 6 is the Company's request to the Commission to, in the case of an order *nisi*, issue the order *nisi* at a date that allows the public comment period to end prior to June 6, allowing the subsequent 30-day appeal period under RSA 541:3 to expire on or before July 6. Alternatively, if the Commission determines that a hearing is appropriate in this proceeding, the Company requests that any order issued by the Commission be effective on or before June 6, also to allow the 30-day appeal period to expire by the July 6 closing deadline.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 12-098

Aquarion Water Company's Responses to Staff Data Requests—Set 1

Data Request Received: April 30, 2012
Request No.: Staff 1-3

Date of Response: May 10, 2012
Witness: Donald J. Smiarowski

REQUEST: How does the company intend to finance capital improvements, including WICA improvements, in the period 2013-2015?

RESPONSE: The Company intends to finance capital improvements, including WICA improvements, in the period 2013-2015 with the remaining proceeds from the \$5 million bond financing (after redeeming the promissory note described in the Company's petition) as well as through internally generated funds, short-term inter-company borrowings, and additional long-term financing as necessary.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DW 12-098

Aquarion Water Company's Responses to Staff Data Requests—Set 1

Data Request Received: April 30, 2012
Request No.: Staff 1-4

Date of Response: May 10, 2012
Witness: Donald J. Smiarowski

REQUEST: Is there a reason the capital improvements mentioned on page 2, paragraph 4 to be financed by the proposed loan exclude mention of the Atlantic Avenue main replacement (largest 2012 WICA project)? Please explain.

RESPONSE: The Company did not make reference to the Atlantic Avenue main replacement project in that paragraph of the petition because the Atlantic Avenue main replacement will be financed with internally generated cash and is expected to be completed by the end of May 2012, before the \$5 million bond financing is completed. The proceeds of the bond financing are, however, expected to fund the remainder of the 2012 projects and part of the 2013 capital program.
