

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 07-134**

**HAMPSTEAD AREA WATER COMPANY, INC.**

**Petition for Approval to Expand Franchise, Approval to Drill and Operate a Well Inside of the New Franchise Area in the Town of Fremont, Approval of Financing, Approval of the Acquisition of Assets and Approval of Permanent Rates**

**Order *Nisi* Granting Approval of Petition**

**ORDER NO. 24,856**

**May 19, 2008**

**I. BACKGROUND**

Hampstead Area Water Company, Inc. (HAWC) currently serves approximately 2,900 customers in various communities throughout southeastern New Hampshire. On December 21, 2007, HAWC filed a petition relative to a new water system intended to serve the Black Rocks Village development (Black Rocks) located off Main Street in the Town of Fremont. Black Rocks is a 112-unit residential development owned and being developed by Center View Hollow Land Company, LLC (CVH) and Lewis Builders Development, Inc. (LBDI).

HAWC seeks authority to: 1) expand its franchise area within the Town of Fremont; 2) drill and construct a well field within the Town of Fremont; 3) acquire the assets of the water system serving Black Rocks; 4) issue debt in order to finance the acquisition of the water system assets; and 5) charge its current consolidated rate to the customers served by the Black Rocks water system. In support of its petition, HAWC submitted copies of agreements, correspondence and schedules, as well as the pre-filed testimonies of Christine Lewis Morse, Vice-President of HAWC and John Sullivan, controller for Lewis Builders, Inc.

HAWC filed with its petition a copy of an executed Water Rights and Easement Deed between CVH and HAWC dated December 17, 2007 and a copy of an executed Contract to Construct, Purchase Water Utility Assets & Provide Domestic Water Service the Community Water System among HAWC, LBDI, and CVH also dated December, 17, 2007. The water system assets will include wells, pumping and treatment equipment, transmission and distribution mains, supply mains and services. The water mains for the system are currently in the ground. The pump station is scheduled to be installed during the winter of 2008-2009. The water system is scheduled to be completed by April 2009 and service is scheduled to begin in June 2009.

The purchase price was determined by multiplying the 112 residential units, plus one clubhouse, by \$1,000 per dwelling "hook-up". The resulting \$113,000 is the amount HAWC proposes to finance. The cost to build the water system is estimated at \$362,025. HAWC plans to treat the difference between the \$362,300 construction cost and the \$113,000 purchase price, or \$249,300, as a Contribution in Aid of Construction (CIAC).

HAWC's proposed franchise expansion, which includes Black Rocks, is within the Town of Fremont and is generally described as approximately 391 acres in the northeast corner of the intersection of Beede Hill Road and Route 107 and includes lots abutting Beede Hill Road and Route 107 as well as lots 3-36, 3-54-1, and 3-15-1.

HAWC requests to apply its current consolidated rate to Black Rocks customers. This rate consists of a \$25.00 quarterly charge and a \$3.71 per 100 cubic foot consumption charge as approved in *Hampstead Area Water Company, Inc.*, Order No. 24,734 (March 23, 2007).

HAWC seeks to finance the purchase of the Black Rocks water system assets through a promissory note with LBDI in the amount of \$113,000. The terms of the note will call for HAWC to make two hundred and forty (240) monthly payments of principal and interest over a twenty (20) year term. The initial interest rate of the note is proposed to be established at 2.25% above the prime rate published in the Wall Street Journal on the last business day of the calendar quarter preceding Commission approval of the financing. The interest rate will be adjusted every three years on the anniversary date of the execution of the note.

HAWC also seeks to drill and construct a well field within the proposed franchise area. The New Hampshire Department of Environmental Services (NHDES) granted approval for the Black Rocks wells on December 21, 2004 and approved the plans and specifications for the water system on December 23, 2007.

On January 8, 2008, the Commission received correspondence from the Fremont Board of Selectmen indicating they had received notification of the proposed petition regarding the Black Rocks water system. No subsequent correspondence has been received from the Fremont Board of Selectmen relative to this docket.

On May 5, 2008, Staff filed a letter recommending the Commission approve HAWC's petition. Staff stated it had reviewed the filing and had conducted discovery, which it attached to its letter. Staff estimated HAWC's initial interest rate to be 8.25 %, given the prime rate in effect as of December 31, 2007. Staff agreed that \$113,000 ought to be allowed as rate base in addition to the subsequent cost of customer meters and that \$249,300 of the estimated cost of construction for the water system be treated as CIAC.

## II. COMMISSION ANALYSIS

Pursuant to RSA 374:22, “[n]o person or business entity shall commence business as a public utility within this state...without first having obtained the permission and approval of the commission.” The Commission shall grant requests for franchise authority and allow an entity to engage in the business of a public utility when it finds, after due hearing, that the exercise of the right, privilege, or franchise is in the public good. RSA 374:26. In determining whether a franchise is in the public good, the Commission assesses the managerial, technical, financial, and legal expertise of the petitioner. See, *Lower Bartlett Water Precinct*, 85 NH PUC 635, 641 (2000).

HAWC has previously demonstrated the requisite managerial and technical expertise to operate its various systems and the instant filing contains similar proof of HAWC’s managerial and technical expertise. With respect to the requirements of RSA 374:22, III relating to suitability and availability of water, we conclude, based upon the correspondence dated December 21, 2004 and December 23, 2007 from NH DES, that HAWC has satisfied RSA 374:22, III. Accordingly, we find that expanding HAWC’s franchise territory to include the area proposed is reasonable and we will approve HAWC’s request for franchise expansion within the Town of Fremont.

Next, we turn to the issue regarding HAWC’s request for approval of the financing associated with the purchase of the water system assets. 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.” The New Hampshire Supreme Court has

further provided that the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to ensure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

HAWC intends to use the proceeds of the financing to purchase the Black Rocks water system assets. These assets include wells, pumping and treatment equipment along with the appurtenant structures, transmission and distribution mains, supply mains and services.

HAWC's petition proposes a purchase price of \$1,000 per service connection, or \$113,000, from LBDI. The methodology used in determining the purchase price is consistent with that approved in Docket No. DW 02-128. See *Hampstead Area Water Company, Inc.*, Order No. 24,362 (August 19, 2004). We deem the proposed purchase price to be reasonable in light of the estimated construction cost for these assets of \$362,300. The difference between the cost of construction and the proposed purchase price will be recorded by HAWC as CIAC and will be excluded from rate base in subsequent rate proceedings. Accordingly, we find that HAWC's proposed purchase of the Black Rocks water system assets in the amount of \$113,000 is consistent with the public good and we will approve that acquisition.

Having found that the intended use of the proposed financing for the purchase of the water system assets is consistent with the public good, we turn to the proposed terms of the financing and their impact on customer rates. Those terms require that HAWC pay LBDI the sum of \$113,000 over a twenty (20) year term in two hundred forty (240) monthly installments of principal and interest. The initial interest rate will be established at 2.25% above the prime rate published in the Wall Street Journal on the last business day of the calendar quarter preceding our approval of this financing. The prime rate in effect on March 31, 2008 was

5.25%; therefore, the initial interest rate of this financing will be 7.50%. We conclude that the terms of the financing under consideration in the instant docket are consistent with other recently approved financings by HAWC and that these terms will not have an adverse impact on future customer rates. Based on our review of the record and discussion above, we find the proposed financing for the purchase of the assets of the Black Rocks water system assets in the amount of \$113,000 from LBDI are consistent with the public good and we approve the financing.

Lastly, HAWC requests approval to charge the Black Rocks customers its current consolidated rate. Inasmuch as the Black Rocks water system is similar in nature to other systems that were operated by HAWC at the time these rates were approved, we find the imposition of HAWC's current consolidated rate to the customers of Black Rocks to be just and reasonable and we will approve application of these rates to the Black Rocks customers.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that HAWC's request to expand its franchise to serve customers in the Black Rocks development and surrounding area as described above is approved; and it is

**FURTHER ORDERED**, that subject to the effective date below, HAWC's request to finance the purchase of the Black Rocks water system assets from LBDI under the terms and conditions stated in HAWC's petition, is approved; and it is

**FURTHER ORDERED**, that HAWC is authorized to charge Black Rocks customers its present consolidated rate in the amount of \$25.00 per quarter and \$3.71 per 100 cubic feet of water consumed on a service rendered basis effective on the date when service is first established in that system; and it is

**FURTHER ORDERED**, that within 30 days from the execution of the financing with LBDI, HAWC shall file a copy of the executed promissory note as well as any underlying documentation with the Commission; and it is

**FURTHER ORDERED**, no service on the note to LBDI commence prior to the date in which HAWC begins serving a customer or customers at Black Rocks development; 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 and shall send a copy of same to the Fremont town clerk by first class mail, such actions to occur no later than May 29, 2008 and to be documented by affidavit filed with this office on or before June 18, 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 June 5, 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 June 12, 2008; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective June 18, 2008, unless Hampstead Area Water Company, Inc. 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 Hampstead Area Water Company, Inc. shall file a compliance tariff with the Commission on or before June 18, 2008, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this nineteenth day of May, 2008.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary