

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 12-098

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

Petition for Approval to Issue General Mortgage Bond

Order *Nisi* Granting Petition

ORDER NO. 25,369

May 24, 2012

I. BACKGROUND

Aquarion Water Company of New Hampshire, Inc. (Aquarion) is a regulated public utility pursuant to RSA 362:2 and RSA 362:4 and serves approximately 8,700 customers in the towns of Hampton, North Hampton, and Rye. On April 17, 2012, Aquarion filed a Verified Petition for authority to issue a \$5 million General Mortgage Bond. On April 18, 2012, Aquarion filed the original signature page to accompany the Verified Petition. On April 25, 2012, Aquarion filed its Board of Directors Consent approving the proposed bond, and copies of the Bond Purchase Agreement and Ninth Supplemental Indenture. 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/2012/12-098.html>.

Aquarion intends to use the proceeds of the bond to retire an existing \$4 million debt obligation, and to use the remaining \$1 million for capital improvements. Aquarion proposes to borrow the \$5 million from CoBank, ACB (CoBank) on a ten year term at an interest rate of 4.45%. CoBank is a federally chartered bank and a Government Sponsored Enterprise (GSE) owned by its customers and issues debt with the full faith and credit of the U.S. Government. As

a cooperative, CoBank provides a return through “patronage payments” to borrowers, which can be passed through to Aquarion’s ratepayers through normal ratemaking in future years.

Conditions of the financing include that the bond be secured by a mortgage on Aquarion’s real property. Aquarion must also join the cooperative by purchasing stock in CoBank at a cost of \$1,000.

The existing loan to be retired is with Aquarion’s parent, Aquarion Company, Inc. and carries an interest rate of 4.62%. *See Aquarion Water Company of New Hampshire, Inc.*, Order No. 25,072, 95 NH PUC 48 (2010). The remaining \$1 million of the bond will be dedicated to capital improvements, including projects under Aquarion’s Water Infrastructure and Conservation Adjustment (WICA) program.

Aquarion estimates its debt issuance costs for this transaction to be \$70,500. Aquarion requests that, because its arrangement with CoBank is conditioned upon closing on the bond no later than July 6, 2012, the Commission issue an order with an effective date which will allow adequate time for the thirty-day statutory rehearing period to expire prior to closing.

On May 16, 2012, Staff filed a letter recommending the Commission approve Aquarion’s petition. Staff stated that it had reviewed the filing and had conducted discovery, which it attached to its recommendation. Staff stated that Aquarion’s ratepayers will benefit from the refinancing of higher cost debt and that the \$5 million bond will reduce the company’s weighted average cost of debt from 6.20% to 6.04%. Staff further stated that this cost reduction could be reflected in Aquarion’s recently filed general rate case, Docket No. 12-085.

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 the 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 financing is appropriate.

Aquarion has asked to borrow \$5 million to retire an existing loan as well as to finance water system improvements in its franchise area. Aquarion will retire an existing \$4 million loan which carries a higher interest rate than the proposed bond issue. The proposed capital improvements are a part of the company’s WICA program and include replacement of water mains and customer meters. Aquarion’s WICA program, entails review and pre-approval of capital projects designed to address the issue of periodic replacement of aging infrastructure in Aquarion’s distribution system. Aquarion’s approved budget for 2012 is \$973,350. We have reviewed the proposed terms of the financing as well as Aquarion’s intended use of the funds and find that Aquarion has demonstrated that the proposed refinancing will enable it to provide better

service to its customers at a reasonable cost. We consider the capital expenditures and associated financing to be good utility practice. We find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms and the effect of this financing on rates, the loan funds are provided on favorable terms. The interest rate is 4.45%, and will replace current financing an interest rate of 4.62%. According to Aquarion's filing and Staff's recommendation, this financing can be reflected in Aquarion's recently filed general rate case and will reduce the overall cost of debt, providing a benefit to customers. We find the terms and the potential future effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find the proposed financing to be consistent with the public good and we approve the amount and purpose of the financing. We also approve Aquarion's mortgage of its real property in connection with this financing pursuant to RSA 369:2. Our approval is given on the condition that the final terms not be substantially different from those proposed in the filing. If such terms vary significantly, we will require Aquarion 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, Aquarion's financing request is hereby APPROVED; and it is

FURTHER ORDERED, that Aquarion is authorized to grant a security interest in its real property in order to secure the financing with CoBank, pursuant to RSA 369:2; and it is

FURTHER ORDERED, that Aquarion shall cause a copy of this Order *Nisi* to be mailed by first class mail to the town clerks in Hampton, North Hampton, and Rye and to the Town of North Hampton Water Commission and 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 May 29, 2012 and to be documented by affidavit filed with this office on or before June 5, 2012; 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 1, 2012 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 4, 2012; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective June 5, 2012, unless Aquarion 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-fourth day of May, 2012.


 Amy L. Ignatius
 Chairman


 Michael D. Harrington
 Commissioner


 Robert R. Scott
 Commissioner

Attested by:


 Debra A. Howland
 Executive Director