

**STATE OF NEW HAMPSHIRE
THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY, INC**

DW 10-000

**PETITION FOR APPROVAL OF FINANCING
FOR 2009 AND 2010 CAPITAL ADDITIONS**

The Petitioner, Hampstead Area Water Company, Inc. (the Company), respectively petitions the N.H. Public Utilities Commission (Commission) for approval of financing for capital additions to the System assets for 2009 and 2010. In support of this Petition, the Company says:

1. The Company is presently franchised in most areas of Hampstead and Atkinson, New Hampshire, and has franchised satellite systems in various towns in Rockingham County (see Schedule A, attached).
2. That for the first financing item, the Company is seeking financing for the various capital additions made in 2009, including replacement meters, pumps, mains, and station upgrades, as listed on Exhibit 1.
3. That the Company will be borrowing \$114,065.00 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25%, currently 5.50%, over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 2.
4. That for the second item of financing, the Company is seeking financing for the various capital additions to be made in 2010, including replacement well, and replacement filters, meters, and pumps, and station upgrades, as listed on Exhibit 3.
5. That the Company will be borrowing \$337,400.00 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25%, currently 5.50%, over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 4.

6. In support of the capital additions financing request, the Company proposes that the financing will:

- a. Provide the necessary cash flow for these system improvements.
- b. Pay for the expenses incurred in installing the meters, pumps and stations upgrades.

7. It would be in the public good for the Company to have approval of the capital additions financing request. The Company provides the following in support:

- a. The capital additions will allow the Company better serve the needs of the its system customers, with more accurate metering, improvement to system flow and water quality.

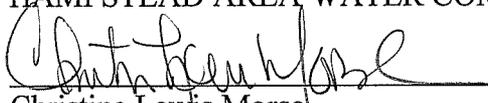
8. See the Pre-filed Testimony of Stephen St. Cyr in support of both financing requests, attached as Exhibit 5.

WHEREFORE your Petitioner prays:

- A. That the Commission find that it would be in the public good for the Company to be permitted to finance the capital additions for 2009 and 2010, as proposed;
- B. That the Commission, by appropriate order, grant the Company permission to finance the capital additions for 2009 and 2010, as proposed;
- C. That the Commission make such further findings and orders as may be proper.

Dated the 16th day of April, 2010

Respectfully submitted,
HAMPSTEAD AREA WATER COMPANY, INC.


Christine Lewis Morse
Vice President

Schedule A

HAWC System History

Company	Year	Docket	Order	Franchise Area
Walnut Ridge Water Company	1977	DE 76-179	12,827	1,826 Acres
Lancaster Farms-Salem	1984	DR 84-267	17,312	144 Acres
Bricketts Mill-Hampstead	1985	DE 85-149	17,848	80 Acres
Squire Ridge-Hampstead	1985	DE 85-274	17,967	140 Acres
Kent Farm-Hampstead	1987	DE 86-198	18,560	1,700 Acres
Kent Farm-Hampstead	1987	DE 86-198	18,598	Supp Order
Woodland Pond-Hampstead	1987	DE 87-211	18,980	701 Acres
Bryant Woods-Atkinson	1988	DE 87-226	19,230	2,340 Acres
Hampstead Area Water Company	1989	DE 89-047	19,717	Hampstead Merger*
Hampstead Area Water Company	1989	DE 89-047	19,751	1,650 Bryant Woods Merger**
Walnut Ridge Water Company	1990	DE 90-129	19,992	55 Acres
HAWC-Bricketts Mill Extension	1990	DE 90-049	19,783	1,246 Acres
HAWC-Hampstead	1991	DE 91-121	20,224	1,350 Acres
HAWC-Hampstead	1991	DE 91-144	20,320	370 Acres
HAWC-Rainbow Ridge-Plaistow	1993	DE 92-129	20,774	152 Acres
HAWC-Stoneford-Sandown	1996	DE 96-201	22,551	3,483 Acres
HAWC-Colby Pond-Danville	1998	DE 97-154	22,854	177 Acres
HAWC-Oak Hill-Chester	2000	DW 00-059	23,577	
HAWC-Walnut Ridge & Lancaster	2002	DW 01-204	23,954	Atkinson Merger***
HAWC-Camelot Court- Nottingham	2004	DW 02-198	24,296	44 Acres
HAWC-Cornerstone-Sandown	2004	DW 02-198	24,296	188 Acres
HAWC-Lamplighter-Kingston	2004	DW 02-198	24,296	13.66 Acres
HAWC-Maplevale-East Kingston	2004	DW 03-150	24,299	107 Acres
HAWC-Dearborn Ridge-Atkinson	2005	DW 04-055	24,501	541 Acres
HAWC-Hampstead Expansion	2005	DW 04-062	24,520	238 Acres
HAWC-Mill Woods-Sandown	2005	DW 05-063	24,544	35 Acres
HAWC-Waterford Village- Sandown	2005	DW 05-070	24,545	90.37 Acres
HAWC-Atkinson Expansion	2005	DW 05-092	24,592	333 Acres
HAWC-Autumn Hills-Sandown	2006	DW 06-016-	24,608	33.68 Acres
HAWC - Cooper Grove-Kingston	2008	DW-07-133	24,831	211 Acres
HAWC - Black Rocks Village	2008	DW-07-134	24,856	391 Acres
HAWC - Sargent Woods	2008	DW-07-130	24,884	65.97 Acres

*Merged Bricketts Mill, Kent Farm, Squire Ridge and Woodland Pond into HAWC

**Merged Bryant Woods into Walnut Ridge with requirement that the Bryant Woods rates apply

***Merged Lancaster Farms and Walnut Ridge into HAWC

HAMPSTEAD AREA WATER COMPANY

2009 Additions

Sheet #	Account	Date	Amount	Description
WR 21-27	304	4/30/09	2,092.92	Lighting Fixtures
	Structures		<u>2,092.92</u>	
WR 9-13	307	6/12/09	2,197.00	Pipe in well
VG 8	307	12/18/09	1,014.05	Repair well
VG 8	307	12/31/09	1,287.04	Repair well
	Wells		<u>4,498.09</u>	
WR 36-40	311	1/30/09	1,755.69	Neptune meter
RR	311	4/9/09	874.14	Pump
CP	311	4/10/09	2,838.91	Labor to install pump
CP	311	4/10/09	643.30	Pump
RR	311	4/24/09	1,139.63	Labor to install pump
WR 36-40	311	5/31/09	3,945.31	Pump
OH	311	6/17/09	1,582.10	Booster pump
WR 36-40	311	9/25/09	2,312.81	Pump
AP	311	10/27/09	1,507.50	Drive
LF	311	11/4/09	706.17	Pump end & motor
LF	311	11/30/09	678.80	Labor to install pump
	Pumping Equipment		<u>17,984.36</u>	
WR 36-40	331	2/27/09	1,805.38	Repair main
HAMP 7	331	5/29/09	3,472.67	Repair main
HAMP 1-6	331	5/31/09	1,664.99	As-built drawings
HAMP 15	331	7/31/09	1,479.40	As-built drawings
HAMP 7	331	11/30/09	1,061.88	Repair main
HAMP 1-6	331	12/31/09	4,721.57	Irongate mains
BM	331	12/31/09	1,442.28	Repair main
	Mains		<u>15,648.17</u>	
WR 9-13	333	3/31/09	3,474.12	Repair service line
HAMP 7	333	5/1/09	1,454.57	New service
BM	333	5/29/09	1,563.33	Repair service line
LF	333	5/29/09	1,126.95	Repair lawn around repairs
HAMP 7	333	6/5/09	1,072.56	New service
HAMP 7	333	6/19/09	1,225.14	New service
WR 9-13	333	8/21/09	1,155.43	Repair service line
WR 9-13	333	10/30/09	1,729.61	Repair service line
HAMP 7	333	10/30/09	2,003.49	Repair curb box
KF	333	10/30/09	1,277.04	Repair curb box
HAMP 7	333	11/30/09	1,024.23	Repair service line
	Services		<u>17,106.47</u>	
AH	334	6/30/09	364.00	New customer meter
WR-UNK	334	7/31/09	364.00	Meter
HAMP 7	334	12/31/09	364.00	Customer meters
HAMP-UNK	334	var.	3,276.00	Customer meters
HAMP 1-6	334	var.	3,640.00	Customer meters
HAMP 33-34	334	var.	728.00	Customer meters
CH	334	var.	728.00	Customer meters
LF	334	var.	18,327.12	84 customer meters
LF	334	var.	21,335.20	Install 84 meters
WV	334	var.	6,188.00	Customer meters
	Customer Meters		<u>55,314.32</u>	
Veh & Oth	340	6/5/09	1,420.00	Folding machine
	Office Equipment		<u>1,420.00</u>	
	TOTALS		<u>114,064.33</u>	

**PROMISSORY NOTE
2009 Capital Additions**

Initial Interest Rate 5.25%
Principle Balance: \$114,065.00
Date: July 1, 2010
Term: Twenty (20) years

Hampstead Area Water Company, Inc. (HAWC) promises to pay to Lewis Builders Development, Inc., (LBDI), the sum of One Hundred Twelve Thousand Six Hundred Forty Four and 33/100th Dollars (\$114,065.00) (Principal), plus interest calculated from the date of this note at the rate of prime plus Two and 25/100th (2.25%) percent, interest to be adjusted on the third anniversary of the signing of this note, and payable as follows:

In Two Hundred and Forty (240) monthly installments of \$774.87 commencing on July 1, 2010 and every month thereafter, to be paid on the 1st day of each month until the balance is paid in full.

Hampstead Area Water Company, Inc. may prepay this note at any time.

HAMPSTEAD AREA WATER
COMPANY, INC.

Witness:

By: _____
Christine Lewis Morse, Its Vice
President, duly authorized.

ACKNOWLEDGED AND ACCEPTED
LEWIS BUILDERS DEVELOPMENT, INC.,

BY _____
Christine Lewis Morse, its President duly authorized

Hampstead Area Water Company
Capital Expenditure Budget
Year 2010

Item Description	Plant Acct #	Quantity	Units	Total Amount	Reason Item Needed
Replace (2) 6' Greensand Filters - Village Green	320			36,000	Normal obsolescence
Replace misc pumps, fix leaks in mains	var.	as needed		60,000	\$57k in 2009
Replace 200 meters per year	334	168	300	50,400	Required by DES(200 less 32 @ Bricketts Mill)
Brickett's Mill Meter Replacement	334	32	300	9,600	
Village Green Well	307			25,000	Replacement well
Lancaster Farm - uranium treatment	320			50,000	New filter & shed
Battery backup for tank scada	311			2,500	1600 for 3 day and 3,400 for 6 day + wiring
Camelot Court filter	320			3,500	Filter for iron
New F-150 pick up truck	341			32,000	Replacement (\$26k for truck + \$6k for bed)
Mains on Route 121	331			10,000	NH DOT replacing culvert
Test\Replace 14 well meters	311			8,400	Required by DES
Fix leaks found during leak detection	331			50,000	Part of leak detection program
 Total Proposed Financing				<u>337,400</u>	

**PROMISSORY NOTE
2010 Capital Additions**

Initial Interest Rate 5.25%
Principle Balance: \$337,400.00
Date: July 1, 2010
Term: Twenty (20) years

Hampstead Area Water Company, Inc. (HAWC) promises to pay to Lewis Builders Development, Inc., (LBDI), the sum of Three Hundred Thirty Seven Thousand Four Hundred and 00/100th Dollars (\$337,400.00) (Principal), plus interest calculated from the date of this note at the rate of prime plus Two and 25/100th (2.25%) percent, interest to be adjusted on the third anniversary of the signing of this note, and payable as follows:

In Two Hundred and Forty (240) monthly installments of \$2,320.93 commencing on July 1, 2010 and every month thereafter, to be paid on the 1st day of each month until the balance is paid in full.

Hampstead Area Water Company, Inc. may prepay this note at any time.

HAMPSTEAD AREA WATER
COMPANY, INC.

Witness:

By: _____
Christine Lewis Morse, Its Vice
President, duly authorized.

ACKNOWLEDGED AND ACCEPTED
LEWIS BUILDERS DEVELOPMENT, INC.,

BY _____
Christine Lewis Morse, its President duly authorized

HAWC
2009 CAPTIAL ADDITIONS

PRINCIPAL:	\$114,065.00	P + 2.25%
INTEREST RATE:	5.500%	Adjust
NO. OF MONTHS:	240	every 3 years
PAYMENT/MO.:	\$784.64	
PAYMENT/YR.:	\$9,415.68	

#	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL BALANCE
1	\$261.84	\$522.80	\$784.64	\$113,803.16
2	\$263.04	\$521.60	\$784.64	\$113,540.12
3	\$264.25	\$520.39	\$784.64	\$113,275.87
4	\$265.46	\$519.18	\$784.64	\$113,010.41
5	\$266.68	\$517.96	\$784.64	\$112,743.73
6	\$267.90	\$516.74	\$784.64	\$112,475.83
7	\$269.13	\$515.51	\$784.64	\$112,206.70
8	\$270.36	\$514.28	\$784.64	\$111,936.34
9	\$271.60	\$513.04	\$784.64	\$111,664.74
10	\$272.84	\$511.80	\$784.64	\$111,391.90
11	\$274.09	\$510.55	\$784.64	\$111,117.81
12	\$275.35	\$509.29	\$784.64	\$110,842.46
13	\$276.61	\$508.03	\$784.64	\$110,565.85
14	\$277.88	\$506.76	\$784.64	\$110,287.97
15	\$279.15	\$505.49	\$784.64	\$110,008.82
16	\$280.43	\$504.21	\$784.64	\$109,728.39
17	\$281.72	\$502.92	\$784.64	\$109,446.67
18	\$283.01	\$501.63	\$784.64	\$109,163.66
19	\$284.31	\$500.33	\$784.64	\$108,879.35
20	\$285.61	\$499.03	\$784.64	\$108,593.74
21	\$286.92	\$497.72	\$784.64	\$108,306.82
22	\$288.23	\$496.41	\$784.64	\$108,018.59
23	\$289.55	\$495.09	\$784.64	\$107,729.04
24	\$290.88	\$493.76	\$784.64	\$107,438.16
25	\$292.22	\$492.42	\$784.64	\$107,145.94
26	\$293.55	\$491.09	\$784.64	\$106,852.39
27	\$294.90	\$489.74	\$784.64	\$106,557.49
28	\$296.25	\$488.39	\$784.64	\$106,261.24
29	\$297.61	\$487.03	\$784.64	\$105,963.63
30	\$298.97	\$485.67	\$784.64	\$105,664.66
31	\$300.34	\$484.30	\$784.64	\$105,364.32
32	\$301.72	\$482.92	\$784.64	\$105,062.60
33	\$303.10	\$481.54	\$784.64	\$104,759.50
34	\$304.49	\$480.15	\$784.64	\$104,455.01
35	\$305.89	\$478.75	\$784.64	\$104,149.12
36	\$307.29	\$477.35	\$784.64	\$103,841.83

2010 CAPTIAL ADDITIONS

PRINCIPAL:	\$337,400.00	P + 2.25%
INTEREST RATE:	5.500%	Adjust
NO. OF MONTHS:	240	every 3 years
PAYMENT/MO.:	\$2,320.93	
PAYMENT/YR.:	\$27,851.16	

#	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL BALANCE
1	\$774.51	\$1,546.42	\$2,320.93	\$336,625.49
2	\$778.06	\$1,542.87	\$2,320.93	\$335,847.43
3	\$781.63	\$1,539.30	\$2,320.93	\$335,065.80
4	\$785.21	\$1,535.72	\$2,320.93	\$334,280.59
5	\$788.81	\$1,532.12	\$2,320.93	\$333,491.78
6	\$792.43	\$1,528.50	\$2,320.93	\$332,699.35
7	\$796.06	\$1,524.87	\$2,320.93	\$331,903.29
8	\$799.71	\$1,521.22	\$2,320.93	\$331,103.58
9	\$803.37	\$1,517.56	\$2,320.93	\$330,300.21
10	\$807.05	\$1,513.88	\$2,320.93	\$329,493.16
11	\$810.75	\$1,510.18	\$2,320.93	\$328,682.41
12	\$814.47	\$1,506.46	\$2,320.93	\$327,867.94
13	\$818.20	\$1,502.73	\$2,320.93	\$327,049.74
14	\$821.95	\$1,498.98	\$2,320.93	\$326,227.79
15	\$825.72	\$1,495.21	\$2,320.93	\$325,402.07
16	\$829.50	\$1,491.43	\$2,320.93	\$324,572.57
17	\$833.31	\$1,487.62	\$2,320.93	\$323,739.26
18	\$837.13	\$1,483.80	\$2,320.93	\$322,902.13
19	\$840.96	\$1,479.97	\$2,320.93	\$322,061.17
20	\$844.82	\$1,476.11	\$2,320.93	\$321,216.35
21	\$848.69	\$1,472.24	\$2,320.93	\$320,367.66
22	\$852.58	\$1,468.35	\$2,320.93	\$319,515.08
23	\$856.49	\$1,464.44	\$2,320.93	\$318,658.59
24	\$860.41	\$1,460.52	\$2,320.93	\$317,798.18
25	\$864.36	\$1,456.57	\$2,320.93	\$316,933.82
26	\$868.32	\$1,452.61	\$2,320.93	\$316,065.50
27	\$872.30	\$1,448.63	\$2,320.93	\$315,193.20
28	\$876.29	\$1,444.64	\$2,320.93	\$314,316.91
29	\$880.31	\$1,440.62	\$2,320.93	\$313,436.60
30	\$884.35	\$1,436.58	\$2,320.93	\$312,552.25
31	\$888.40	\$1,432.53	\$2,320.93	\$311,663.85
32	\$892.47	\$1,428.46	\$2,320.93	\$310,771.38
33	\$896.56	\$1,424.37	\$2,320.93	\$309,874.82
34	\$900.67	\$1,420.26	\$2,320.93	\$308,974.15
35	\$904.80	\$1,416.13	\$2,320.93	\$308,069.35
36	\$908.95	\$1,411.98	\$2,320.93	\$307,160.40

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION
HAMPSTEAD AREA WATER COMPANY

DW 10-

PETITION FOR APPROVAL OF FINANCING
FOR 2009 AND 2010 CAPITAL ADDITIONS

PREFILED DIRECT TESTIMONY OF STEPHEN P. ST. CYR

- Q. What is your name and business address?
- A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive, Biddeford, ME.
- Q. Who is your employer?
- A. My employer is Stephen P. St. Cyr & Associates.
- Q. What are your responsibilities in this case?
- A. My responsibilities are to support Hampstead Area Water Company's (Company or HAWC) financing request and to prepare the financial exhibits and prefiled direct testimony which describes the financing and the financial schedules. In addition, I am prepared to testify in support of financing.
- Q. Have you prepared testimony before this Commission?
- A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission, including requests for new and expanded franchises, requests for approval of State Revolving Fund ("SRF"), commercial bank and owner financings and requests for rate increases.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's effort to borrow funds from Lewis Builders Development, Inc., an affiliated company (Lewis), which will allow it to pay for the 2009 additions to plant and proposed 2010 capital additions.

Q. Please describe the financing for the 2009 additions to plant.

A. In 2009 the Company replaced/upgraded/improved the system with various additions to plant. In total, the Company expended \$114,065.00. The 2009 additions to plant included numerous meters and pumps, repair to mains, service lines and curb boxes. A number of other projects, i.e., meter and pump replacement were critical in order for the system to function.

Q. When does the Company expect that the 2009 additions to plant to be completed?

A. The 2009 additions to plant are already installed. The financing request is for approval of the monies advanced by the affiliated company, Lewis Builders Development, Inc. for the cost of the purchase and installation of the 2009 additions to plant.

Q. Please describe the proposed note.

A. The Company will be borrowing \$114,065.00 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25% over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 2 to the Petition for Financing.

Q. Please describe the financing for the proposed 2010 capital additions.

A. In 2010 the Company is proposing to replace/upgrade/improve the system with various additions to plant. In total, the Company proposes to expend \$347,400.00. The proposed 2010 additions to plant included a replacement well, replacing meters, a new vehicle, new water treatment filters, station upgrades, replacement pumps, etc. A number of the projects, i.e., the replacement meters, the replacement well and the water loss program, are DES recommended. A number of other projects, i.e., filter and pumps, improvements to the SCADA system, are critical in order for the system to function. The replacement vehicle is necessary to carry out required maintenance on the system.

Q. When does the Company expect that the 2010 additions to plant to be completed?

A. The proposed 2010 additions to plant will be installed over the course of the remainder of 2010. The financing request is for approval of the monies to be advanced by the affiliated company, Lewis Builders Development, Inc., for the cost of the purchase and installation of the proposed 2010 additions to plant.

Q. Please describe the proposed note.

A. The Company will be borrowing \$347,400.00 from its affiliated company, Lewis Builders Development, Inc., with interest at prime plus 2.25% over a term of Twenty (20) years. A copy of the proposed note is attached as Exhibit 4 to the Petition for Financing.

Q. Has the Company determined the impact of the financing and the additions to plant on the Company's financial statements?

A. Yes. I have prepared proforma financial statements identified as SPS 1-1 – SPS 9.

Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Debits?

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b), identifies the PUC account title and account number. Column (c) identifies the actual December 31, 2009 account balances. Column (d) identifies the adjustments to the December 31, 2009 account balances. Column (e) identifies the adjusted December 31, 2009 account balances and is the sum of columns (c) and (d).

Q. Please explain the adjustments related to 2009 / 2010 Additions to Plant Financing.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant for \$337,400 represents the total additions to plant in service for the costs of the replacing meters, replacing mains and services, replacing and adding treatment equipment and filters, purchasing a new F-150 pickup truck, replacing well and various other system improvements. Please note the 2009 additions to plant amounting to \$114,065 are reflected in the December 31, 2009 account balance.

The second adjustment to Accumulated Depreciation for \$13,388 represents a half year depreciation on the 2009 additions and a half year depreciation on the 2010 additions. Please note that a half year depreciation on the 2009 additions is already reflected in the December 31, 2009 account balance.

The third adjustment to Cash for \$75,061 represents the net of the cash received from the Lewis financing and the anticipated additional revenue when

such plant is placed in rate base and reflected in rates less payment for the new plant, payment of the first year principal and interest on the new loan and payment for increase in certain expenses, i.e., taxes.

The four adjustment to Miscellaneous Deferred Debits for \$4,750 is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of such costs.

Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the 2009 / 2010 Additions to Plant Financing.

A. Schedule SPS 1-2 contains 2 adjustments.

The first adjustment to Retained Earnings for \$12,720 represents the net income impact of the various income statement transactions (i.e., revenue, depreciation, taxes and interest.

The second adjustment to Other Long Term Debt for \$391,104 represents the net amount of the financing of \$451,465 and the first year repayment of the loan of \$37,267. Please note that \$47,606 of the \$114,065 financing for the 2009 additions is already reflected in the December 31, 2009 account balance.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to the 2009 / 2010 Additions to Plant Financing.

A. There are 4 adjustments to the Statement of Income.

The first adjustment to Operating Revenue of \$60,540 represents the anticipated additional revenues when such plant is placed in rate base and reflected in rates. The anticipated revenue requirement allows the Company to recover its investment and earn a return on the unrecovered investment.

The second adjustment to Depreciation Expense of \$13,388 represents a half year depreciation on the 2009 additions and a half year depreciation on the 2010 additions. Please note that a half year depreciation on the 2009 additions is already reflected in the December 31, 2009 account balance.

The third adjustment to Taxes other than Income of \$9,487 and Income Taxes of \$184 represents the increase in state and local property taxes and the state business enterprise tax.

The fourth adjustment to Interest Expense including the amortization of the financing costs amounts to \$24,762. It represents the first year interest expense on the new loan and the amortization of the financing costs.

Overall, with the additional revenue less the various expense, the net income amounts to \$12,720.

Q. Would you please explain Schedule SPS 3, entitled Balance Sheet, Capital Structure?

A. The description of the columns is the same as SPS1-1.

Q. Please explain the adjustments related to the 2009 / 2010 Additions to Plant Financing.

- A. The actual Current Year End Balance is also reflected on the Balance Sheet (see SPS 1-2). The related capitalization ratios are shown on the bottom half of the schedule. The Company's debt to equity position is heavily weighted towards debt due to its negative retained earnings. The Company equity position has improved in recent years due to the 2009 conversion of A/P to Associated Company to Other Paid in Capital. With recent rate increases, the Company expects that the ratio will continue to improve.
- Q. Please explain Schedule SPS-4, entitled Journal Entries.
- A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) the borrowing of funds, (2) the utilization of the funds for the additions to plant, (3) the repayment of the principal and interest on the loan, and (4) the anticipated revenue requirement when the plant is placed in rate base and reflected in rates.
- Q. Would you like to explain SPS-5?
- A. SPS-5 is a schedule of plant and depreciation for 2009 Capital Additions.
- Q. Would you please explain SPS-6?
- A. SPS-6 is a schedule of plant and depreciation for 2010 Capital Additions.
- Q. Would you please explain Schedule SPS 7, entitled Calculation of Revenue Requirement?
- A. The sum of the additions to plant less the related accumulated depreciation result in a rate base of \$438,077. The Company is applying the cost of the debt of 5.50% to determine the additional net operating income required. In addition, the

Company adds a full year depreciation and taxes to the additional net operating income required in order to determine the total additional revenue requirement of \$60,540.

Q. Would you like to explain SPS-8?

A. SPS-8 is a schedule of the Source and Use of Funds for the 2009 and 2010 Capital Additions.

Q. Would you like to explain SPS-9?

A. SPS-9 is a schedule of the Estimated Cost of Financing for the 2009 and 2010 Capital Additions.

Q. How does the Company propose to repay the new debt?

A. At this point, the Company anticipates filing for a rate increase in 2011 based on a 2010 test year. The 2009 and 2010 additions will be reflect in rate base, the debt financing will be reflected in the rate of return and the various expenses will be reflected in the proforma test year. With an increase in rates, the Company believes that the revenues will be sufficient to pay principal and interest on the loans.

Q. What does the Company propose to do with the costs of the financing?

A. The cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will amortized over the term of the loans.

Q. Why should the Commission approve the financing?

A. The Commission should approve the financing because it is in the best interest of the Company and its customers. The 2009 and 2010 additions to plant allow the Company to continue to operate and maintain the system including more accurate

metering, more dependable water supply and better quality water. The financing of the 2009 additions will allow the Company to repay Lewis Builders Development, Inc. for monies already expended for plant already installed. The financing of the 2010 additions from Lewis is necessary as institution financing is not available to the Company.

Q. Is there anything else that the Company would like to bring to the Commission's attention?

A. No.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve the financing of the 2009 additions to plant amounting to \$114,065.00, under the terms stated previously. The Company also respectfully requests that the PUC approve the financing of the proposed 2010 additions to plant amounting to \$347,400.00, under the terms stated previously.

Q. Does this conclude your testimony?

A. Yes.

F-1 BALANCE SHEET
Assets and Other Debits

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
UTILITY PLANT				
1	Utility Plant (101-106)	\$ 12,674,268	\$ 337,400	\$ 13,011,668
2	Less: Accumulated Depr. and Amort. (108-110)	3,149,891	\$ 13,388	3,163,279
3	Net Plant	\$ 9,524,377	\$ 324,012	\$ 9,848,389
4	Utility Plant Acquisition Adj. (Net) (114-115)			
5	Total Net Utility Plant	\$ 9,524,377	\$ 324,012	\$ 9,848,389
OTHER PROPERTY AND INVESTMENTS				
6	Nonutility Property (121)			
7	Less: Accumulated Depr. and Amort. (122)			
8	Net Nonutility Property			
9	Investment in Associated Companies (123)			
11	Utility Investments (124)			
12	Other Investments			
13	Special Funds(126-128)			
14	Total Other Property & Investments			
CURRENT AND ACCRUED ASSETS				
16	Cash (131)	\$ 29,584	\$ 75,061	\$ 104,645
17	Special Deposits (132)			
18	Other Special Deposits (133)			
19	Working Funds (134)			
20	Temporary Cash Investments (135)			
21	Accounts and Notes Receivable-Net (141-144)	435,845		435,845
22	Accounts Receivable from Assoc. Co. (145)			
23	Notes Receivable from Assoc. Co. (146)			
24	Materials and Supplies (151-153)			
25	Stores Expense (161)			
26	Prepayments-Other (162)	15,102		15,102
27	Prepaid Taxes (163)	26,056		26,056
28	Interest and Dividends Receivable (171)			
29	Rents Receivable (172)			
30	Accrued Utility Revenues (173)	107,704		107,704
31	Misc. Current and Accrued Assets (174)			
32	Total Current and Accrued Assets	\$ 614,291	\$ 75,061	\$ 689,352
DEFERRED DEBITS				
32	Unamortized Debt Discount & Expense (181)	\$ 70,834	\$ 4,750	\$ 75,584
33	Extraordinary Property Losses (182)			
34	Prelim. Survey & Investigation Charges (183)			
35	Clearing Accounts (184)			
36	Temporary Facilities (185)			
37	Miscellaneous Deferred Debits (186)	127,412		127,412
38	Research & Development Expenditures (187)			
39	Accumulated Deferred Income Taxes (190)	23,641		23,641
40	Total Deferred Debits	\$ 221,887	\$ 4,750	\$ 226,637
TOTAL ASSETS AND OTHER DEBITS				
		\$ 10,360,555	\$ 403,824	\$ 10,764,379

F-1 BALANCE SHEET
Equity Capital and Liabilities

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
EQUITY CAPITAL				
1	Common Stock Issued (201)	\$ 16,767		\$ 16,767
2	Preferred Stock Issued (204)			
3	Capital Stock Subscribed (202,205)			
4	Stock Liability for Conversion (203, 206)			
5	Premium on Capital Stock (207)			
6	Installments Received On Capital Stock (208)			
7	Other Paid-In Capital (209,211)	2,104,354		2,104,354
8	Discount on Capital Stock (212)			
9	Capital Stock Expense(213)			
10	Retained Earnings (214-215)	(1,428,401)	12,720	(1,415,681)
11	Reacquired Capital Stock (216)			
12	Total Equity Capital	\$ 692,720	\$ 12,720	\$ 705,440
LONG TERM DEBT				
13	Bonds (221)			
14	Reacquired Bonds (222)			
15	Advances from Associated Companies (223)			
16	Other Long-Term Debt (224)	\$ 4,646,181	\$ 391,104	\$ 5,037,285
17	Total Long-Term Debt	\$ 4,646,181	\$ 391,104	\$ 5,037,285
CURRENT AND ACCRUED LIABILITIES				
18	Accounts Payable (231)	\$ 18,131		\$ 18,131
19	Notes Payable (232)			
20	Accounts Payable to Associated Co. (233)	14,961		14,961
21	Notes Payable to Associated Co. (234)			
22	Customer Deposits (235)			
23	Accrued Taxes (236)			
24	Accrued Interest (237)			
25	Accrued Dividends (238)			
26	Matured Long-Term Debt (239)			
27	Matured Interest (240)			
28	Misc. Current and Accrued Liabilities (241)	21,159		21,159
29	Total Current and Accrued Liabilities	\$ 54,251	\$ -	\$ 54,251
DEFERRED CREDITS				
30	Unamortized Premium on Debt (251)			
31	Advances for Construction (252)			
32	Other Deferred Credits (253)			
33	Accumulated Deferred Investment Tax Credits (255)			
34	Accumulated Deferred Income Taxes:			
35	Accelerated Amortization (281)			
36	Liberalized Depreciation (282)	1,684		1,684
37	Other (283)			
38	Total Deferred Credits	\$ 1,684		\$ 1,684
OPERATING RESERVES				
39	Property Insurance Reserve (261)			
40	Injuries and Damages Reserve (262)			
41	Pensions and Benefits Reserves (263)			
42	Miscellaneous Operating Reserves (265)			
43	Total Operating Reserves	\$ -	\$ -	\$ -
CONTRIBUTIONS IN AID OF CONSTRUCTION				
44	Contributions In Aid of Construction (271)	\$ 6,969,799		\$ 6,969,799
45	Accumulated Amortization of C.I.A.C. (272)	2,004,080		2,004,080
46	Total Net C.I.A.C.	\$ 4,965,719	\$ -	\$ 4,965,719
46	TOTAL EQUITY CAPITAL AND LIABILITIES	\$ 10,360,555	\$ 403,824	\$ 10,764,379

F-2 STATEMENT OF INCOME

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
UTILITY OPERATING INCOME				
1	Operating Revenues(400)	\$ 1,327,921	\$ 60,540	\$ 1,388,461
2	Operating Expenses:			
3	Operating and Maintenance Expense (401)	845,169		845,169
4	Depreciation Expense (403)	359,624	13,388	373,012
5	Amortization of Contribution in Aid of Construction (405)	(179,196)		(179,196)
6	Amortization of Utility Plant Acquisition Adjustment (406)			
7	Amortization Expense-Other (407)	3,812		3,812
8	Taxes Other Than Income (408.1-408.13)	140,642	9,487	150,129
9	Income Taxes (409.1, 410.1, 411.1, 412.1)	5,530	184	5,714
10	Total Operating Expenses	\$ 1,175,581	\$ 23,059	\$ 1,198,640
11	Net Operating Income (Loss)	\$ 152,340	\$ 37,482	\$ 189,822
12	Income From Utility Plant Leased to Others (413)			
13	Gains(Losses) From Disposition of Utility Property (414)			
14	Net Water Utility Operating Income	\$ 152,340	\$ 37,482	\$ 189,822
OTHER INCOME AND DEDUCTIONS				
15	Revenues From Merchandising, Jobbing and Contract Work (415)			
16	Costs and Expenses of Merchandising, Jobbing and Contract Work (416)			
17	Equity in Earnings of Subsidiary Companies (418)			
18	Interest and Dividend Income (419)			
19	Allow. for funds Used During Construction (420)			
20	Nonutility Income (421)			
21	Gains (Losses) Form Disposition Nonutility Property (422)			
22	Miscellaneous Nonutility Expenses (426)			
23	Total Other Income and Deductions	\$ -	\$ -	\$ -
TAXES APPLICABLE TO OTHER INCOME				
24	Taxes Other Than Income (408.2)			
25	Income Taxes (409.2, 410.2, 411.2, 412.2, 412.3)			
26	Total Taxes Applicable To Other Income			
INTEREST EXPENSE				
27	Interest Expense (427)	\$ 151,204	\$ 24,512	\$ 175,716
28	Amortization of Debt Discount & Expense (428)	1,549	250	1,799
29	Amortization of Premium on Debt (429)			
30	Total Interest Expense	\$ 152,753	\$ 24,762	\$ 177,515
31	Income Before Extraordinary Items	\$ (413)	\$ 12,720	\$ 12,307
EXTRAORDINARY ITEMS				
32	Extraordinary Income (433)			
33	Extraordinary Deductions (434)			
34	Income Taxes, Extraordinary Items (409.3)			
35	Net Extraordinary Items			
	NET INCOME (LOSS)	\$ (413)	\$ 12,720	\$ 12,307

F-1 BALANCE SHEET
Capital Structure

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
EQUITY CAPITAL				
1	Common Stock Issued (201)	\$ 16,767		\$ 16,767
2	Other Paid-In Capital (209,211)	2,104,354	-	2,104,354
3	Retained Earnings (214-215)	(1,428,401)	12,720	(1,415,681)
4	Total Equity Capital	\$ 692,720	\$ 12,720	\$ 705,440
LONG TERM DEBT				
5	Other Long-Term Debt (224)	\$ 4,646,181	\$ 391,104	\$ 5,037,285
6	Total Long-Term Debt	\$ 4,646,181	\$ 391,104	\$ 5,037,285
7	Total Capital Structure	\$ 5,338,901	\$ 403,824	\$ 5,742,725

Line No. (a)	Account Title (Number) (b)	Current Year End Balance (c)	Adjustments (d)	Adjusted Year End Balance (e)
EQUITY CAPITAL				
1	Common Stock Issued (201)	0.31%	0.00%	0.29%
2	Other Paid-In Capital (209,211)	39.42%	0.00%	36.64%
3	Retained Earnings (214-215)	-26.75%	3.15%	-24.65%
4	Total Equity Capital	12.97%	3.15%	12.28%
LONG TERM DEBT				
5	Other Long-Term Debt (224)	87.03%	96.85%	87.72%
6	Total Long-Term Debt	87.03%	96.85%	87.72%
7	Total Capital Structure	100.00%	100.00%	100.00%

Hampstead Area Water Company
Journal Entries

SPS-4

1	Dr.	181	Unamortized Debt Expense	5,000	
	Cr.	131	Cash		5,000
	To record estimated debt expense associated with financing 2009 & 2010 additions to plant				
2	Dr.	131	Cash	66,459	
	Cr.	224	Other Long Term Debt		66,459
	To record receipt of cash and related liability for 2009 additions to plant. Note: \$47,406 of the liability related to the 2009 additions is already reflected on 12/31/09 B/S.				
3	Dr.	131	Cash	337,400	
	Cr.	224	Other Long Term Debt		337,400
	To record receipt of cash and related liability for the 2010 additions to plant.				
4	Dr.	101	Plant in Service	337,400	
	Cr.	131	Cash		337,400
	To record the 2010 plant in service Note: The 2009 additions to plant are already reflected on 12/31/09 B/S.				
5	Dr.	403	Depreciation Expense	2,890	
	Cr.	108	Accumulated Depreciation		2,890
	To record additional half year depreciation expense on 2009 additions to plant Note: A half year depreciation on 2009 additions to plant is already reflected on the 12/31/09 B/S.				
6	Dr.	403	Depreciation Expense	10,498	
	Cr.	108	Accumulated Depreciation		10,498
	To record half year depreciation expense on 2010 additions to plant				
7	Dr.	224	Other Long Term Debt	12,755	
	Dr.	427	Interest Expense	24,512	
	Cr.	131	Cash		37,267
	To record 1st year principal and interest payments on N/P for 2009 & 2010 additions				
8	Dr.	428	Amortization of Debt Expense	250	
	Cr.	186	Miscellaneous Deferred Debits		250
	To record annual amortization of debt expense				
9	Dr.	131	Cash	60,540	
	Cr.	461	Metered Water Revenues		60,540
	To record additional annual revenue				
10	Dr.	408	State Utility Property Taxes	2,899	
	Dr.	408	Local Property Taxes	6,588	
	Dr.	409.11	State Business Enterprise Taxes	184	
	Cr.	131	Cash		9,671
	To record additional state and local property taxes and state business enterprise tax				

Hampstead Area Water Company
 2010 Projected Plant and Depreciation

SPS-5

<u>Item Description</u>	<u>Plant Acct #</u>	<u>Total Amount</u>	<u>Depr. Rate</u>	<u>Annual Depr Exp</u>	<u>Accum Depr</u>
Structures & Improvements	304	\$2,093	2.00%	\$42	\$21
Well Improvements	307	4,498	3.30%	148	74
Pumping Equipment	311	17,985	10.00%	1,799	899
Main Replacements	331	15,648	2.00%	313	156
Service Replacements	333	17,106	2.50%	428	214
Meters	334	55,315	5.00%	2,766	1,383
Office Equipment	340	1,420	20.00%	284	142
Total Proposed Financing		<u>\$114,065</u>		<u>\$5,779</u>	<u>\$2,890</u>

Hampstead Area Water Company
2010 Projected Plant and Depreciation

SPS-6

<u>Item Description</u>	<u>Plant Acct #</u>	<u>Total Amount</u>	<u>Depr. Rate</u>	<u>Annual Depr Exp</u>	<u>Accum Depr</u>
Miscellaneous Structures	304	\$2,000	2.00%	\$40	\$20
Village Green Well	307	25,000	3.30%	825	413
Miscellaneous Well Improvements	307	5,000	3.30%	165	83
Battery backup for tank scada	311	2,500	10.00%	250	125
Test\Replace 14 well meters	311	8,400	10.00%	840	420
Miscellaneous Pumping Equipment	311	20,000	10.00%	2,000	1,000
Replace (2) 6' Greensand Filters - Village Green	320	36,000	10.00%	3,600	1,800
Lancaster Farm - uranium treatment	320	50,000	3.60%	1,800	900
Camelot Court filter	320	3,500	3.60%	126	63
Mains on Route 121	331	10,000	2.00%	200	100
Fix leaks found during leak detection	331	50,000	2.00%	1,000	500
Miscellaneous Main replacements	331	15,000	2.00%	300	150
Miscellaneous Service replacements	333	18,000	2.50%	450	225
Replace 200 meters per year	334	50,400	5.00%	2,520	1,260
Brickett's Mill Meter Replacement	334	9,600	5.00%	480	240
New F-150 pick up truck	341	32,000	20.00%	6,400	3,200
Total Proposed Financing		<u>\$337,400</u>		<u>\$20,996</u>	<u>\$10,498</u>

Hampstead Area Water Company
2009 / 2010 Additions to Plant Financing

SPS-7

Calculation of Revenue Requirement

	Estimated <u>2009/2010</u>
Addition to Rate Base:	
Plant Additions	
2009 Additions	\$114,065
2010 Additions	<u>337,400</u>
Total Addition to Plant	\$451,465
Less: Accumulated Depreciation	<u>13,388</u>
Net Plant	\$438,077
Add: Cash Working Capital	
Total Additions to Rate Base	\$438,077
Rate of Return	<u>5.50%</u>
Additional Net Operating Income Required	\$24,094
Add: Operating and Maintenance Expenses	
Depreciation Expense	26,775
State Property Taxes ($\$439,229 / 1,000 \times \6.60)	2,899
Local Property Taxes ($\$439,229 / 1,000 \times \15.00)	6,588
Business Enterprise Taxes ($\$24,512 \times \0.0075)	<u>184</u>
Total Additional Revenue Required	<u>\$60,540</u>

Hampstead Area Water Company
Source and Use of Funds

SPS-8

<u>Source of Funds</u>	<u>2009/2010</u>
Lewis Builders Development, Inc.	\$ 451,465
Total Source of Funds	<u>\$ 451,465</u>
 <u>Use of Funds</u>	
2009 Additions to Plant	\$ 114,065
2010 Additions to Palnt	<u>337,400</u>
Total Use of Funds	<u>\$ 451,465</u>

**Hampstead Area Water Company
Estimated Cost of Financing**

SPS-9

2009 / 2010 Additions to Plant Financing

St. Cyr & Associates	\$2,000
Lewis Builders Development	<u>3,000</u>
Total Estimated Financing Costs	<u>\$5,000</u>