

DW 01-236

LAKES REGION WATER COMPANY, INC.

Petition for Authority to Finance Long-term Debt
Order Nisi Approving Petition Subject to Certain Conditions

O R D E R N O. 23,919

February 8, 2002

I. PROCEDURAL HISTORY AND BACKGROUND

The Petitioner, Lakes Region Water Company, Inc. (Lakes Region or the Company), on December 5, 2001, filed a petition with the New Hampshire Public Utilities Commission (Commission), pursuant to RSA 369:1-4, requesting authorization to borrow the sum of \$136,000. These funds will be used to complete the construction of water mains and services at the Company's Tamworth Water Works system as well as to purchase two additional water systems from Consolidated Water Company, Inc.

In 1999, the Town of Tamworth sought and obtained a Community Development Block Grant (CDBG) in the amount of \$247,385 to fund significant improvements to the Tamworth Water Works distribution system (Tamworth Improvements project). The contract for the construction of these improvements was made subject to a bid process and LRW Water Services (LRW), an affiliate of the Company, was awarded the contract as the lowest bidder. However, LRW's bid of \$347,810

exceeded the amount of the CDBG by \$100,425. In order to proceed with the improvements, the Company commenced work on the project in 2001 while at the same time seeking additional funding. The Tamworth Improvements project was substantially completed in the fall of 2001.

Also during 2001, the Company engaged in discussions with Consolidated Water Company, Inc. (Consolidated) to purchase two small water systems - Hidden Valley Shores in Tuftonboro and 175 Estates in Thornton. On September 17, 2001, the Company agreed to purchase the Hidden Valley Shores system for \$7,000 and the 175 Estates system for \$30,000. On November 2, 2001, the Company and Consolidated filed a joint petition seeking approval for the sale of the assets of these two systems, as well as the transfer of the associated franchise rights. The joint petition is the subject of Docket No. DW 01-217, which is currently pending before the Commission.

On November 19, 2001, the Company received approval from the Bank of New Hampshire (BNH) for its application to borrow the sum of \$136,000. The term of the loan approved by BNH is ten years at an interest rate of prime plus one percent (currently 6.00%).

The Company asserts in its petition that the

financing will have no immediate effect on customer rates. However, the Company also indicates that it will eventually seek a rate increase as a result of the Tamworth Improvements. The Company also states that it will review the rates at Hidden Valley Shores and 175 Estates in order to determine whether a rate increase would be appropriate for those two systems.

II. COMMISSION ANALYSIS

Pursuant to 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." We may look beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205, 211 (1984).

In the case at hand, approximately \$99,000 from the proposed financing will be used to fund the Tamworth Improvements project. The Company acquired Tamworth Water Works in 1995 with an awareness that a number of deficiencies existed within that system. The Commission was also aware of these deficiencies and, in its order approving the acquisition

of Tamworth Water Works, noted the Company's experience and expertise in resolving these problems. See *Re Tamworth Water Works, Inc.*, 80 NH PUC 785 (1995). Since that time, the Company has been diligent in working with Staff and keeping them informed of the improvements made to the Tamworth system. The Commission notes that these improvements have been significant, have been financed largely by the CDBG, and are substantially complete.

The financing may affect the overall cost of capital to ratepayers and we must also review that aspect of the financing. As is set forth above, the note is for a term of ten years with an interest rate of prime plus one percent (currently 6.00%). We believe this is a favorable rate for a utility of this size and nature especially since no funding from the State Revolving Loan Fund was available at the time.

Staff has reviewed the filing, including the proposed terms and conditions of the loan, and supports the Company's request for financing authority. Staff also agrees with the Company's assertion that approval of this financing will have no immediate effect on customer rates since the improvements are not in rate base until Lakes Region seeks a rate increase on those improvements.

The remaining portion of the proposed financing will

be used to fund the acquisition of the two systems from Consolidated, pending the approval of that transfer by this Commission in a separate docket, DW 01-217. That docket is currently in the midst of discovery. Even though a decision has not yet been rendered in that docket, we have previously supported Lakes Region's acquisition of community water systems and are familiar with their operations as a public utility. The financing proposed in the instant docket will facilitate their acquisitions of Hidden Valley Shores and 175 Estates. Should we not approve the transfer in Docket DW 01-217, pursuant to RSA 365:28, the Commission has the authority to revisit approval of this financing.

Under the circumstances, we find that the terms and conditions of the loan are just and reasonable and the proposed use of the funds to be prudent and in the public good.

Based upon the foregoing, it is hereby

ORDERED NISI, that, pursuant to RSA 369:1-4, the proposed financing, upon the terms and conditions proposed in the Company's petition and as set forth in the accompanying loan agreement with the Bank of New Hampshire, and subject to the terms and conditions specified in this Order, is consistent with the public good; and it is

FURTHER ORDERED, that pursuant to RSA 369:1-4, the Petitioner is authorized to borrow the sum of \$136,000 under the terms and conditions set forth under the loan agreement with the Bank of New Hampshire; and it is

FURTHER ORDERED, that the Petitioner 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, such publication to be no later than February 18, 2002 and to be documented by affidavit filed with this office on or before March 4, 2002; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than February 25, 2002; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 1, 2002; and it is

FURTHER ORDERED, that this Order Nisi shall be effective March 11, 2002, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transactions contemplated hereby.

By order of the Public Utilities Commission of New
Hampshire this eighth day of February, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary