

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DW 09-117

TIOGA RIVER WATER COMPANY, INC.

Petition for Approval of Financing

Order *Nisi* Approving Financing

ORDER NO. 24,988

July 23, 2009

I. BACKGROUND

On June 19, 2009, Tioga River Water Company, Inc. (TRWC) filed a petition with the Commission seeking authority to borrow \$266,000 in long term debt. In support of its petition, TRWC filed the testimony of Stephen P. St. Cyr. TRWC proposes to borrow funds made available through the recently passed American Recovery and Reinvestment Act of 2009. The funds are to be disbursed through the existing State Revolving Loan Fund (SRF) administered by the Department of Environmental Services (DES). TRWC intends to use the funds to complete improvements at its two water systems located in Gilford and Belmont.

Improvements to the Gilford system would include new booster pumps, an iron and manganese treatment system and a generator. Upgraded booster pumps will allow the system to meet peak demands. The treatment system will address continuing problems with discolored water, along with taste and odor issues. A generator, to be included only if sufficient funding remains after the higher priority treatment system and booster pumps are installed, would address periodic water outages that have occurred due to loss of external power. The Gilford system has 37 service connections, two of which serve 22 and 24 unit elderly housing complexes. Project cost is estimated at \$115,000.

The nearly 30-year old pump station in the Company's Belmont system will be replaced. The existing station suffers from moisture problems, poor access to its below-grade equipment, flooding from a nearby river and other problems. Replacement of the station has been discussed in past Commission orders¹. The new station would greatly improve access, eliminate moisture problems, include alarms and upgraded equipment, and incorporate treatment to address taste and odor and other water quality concerns. The system has 22 service connections. Project cost is estimated at \$151,000.

The loan that TRWC anticipates is expected to have terms and conditions similar to those of prior SRF loans. TRWC's \$266,000 loan is expected to be repaid over a 20 year term, with an interest rate of 3.744%. Significantly, 50% of the loan principal will be forgiven and will not accrue interest. As with prior SRF loans, DES would make disbursements of funds based on invoices submitted by contractors engaged by TRWC, and those advances would accrue interest at an annual rate of 1% until substantial completion of the capital projects. Approximately six months after project completion, monthly payments of principal and interest will begin, with 50% of the principal forgiven. Although the initial loan amount is \$266,000, forgiveness of 50% of the principal amount will leave TRWC with only \$133,000 to repay.

Commission Staff, by letter of June 20, 2009, recommended that the request for financing be approved. The company's data responses are attached to Staff's letter. Staff concurred with the company's proposed uses of the funds and the improvements planned for its water systems. Staff noted that the petition requested approval for an associated step increase in rates to be implemented following completion of the improvements later this year. However, Staff expressed its preference that any increase occur instead in the context of a full rate case, given

¹ See Order 24,097 in DW 02-094 and Order 22,542 in DR 96-300.

discussion of that issue in another recent docket². The company has indicated that it intends to file a full rate case in the near future. Staff also noted that because the company appears to be highly leveraged, it would also be appropriate to review the company's capital structure in that upcoming rate case.

II. COMMISSION ANALYSIS

Pursuant to the provisions of 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 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 (1984).

TRWC has requested to borrow \$266,000 to finance capital improvements in its two community water systems. The loan funds originate through the recently passed American Recovery and Reinvestment Act of 2009 and are being disbursed through the existing SRF structure on extremely favorable terms. As repayment commences, half of the loan principal will be forgiven and will not accrue interest.

We have reviewed TRWC's intended use of the funds and find that TRWC has demonstrated that each project will enable it to provide better quality service to its customers. The Gilford improvements will address pumping adequacy, water quality concerns, and, potentially, system reliability related to loss of external power. Replacement of the Belmont pump station is overdue and will result in other improvements to quality of service as well. Accordingly, we find that the proposed uses of the financing are for the public good.

² See Order No. 24,925 (December 30, 2008) in DW 08-070.

Given the important nature of the capital projects to be undertaken with the requested funds and the favorable terms of financing, we conclude that the financing is consistent with the public good and approve the amount and purpose of the financing. Although TRWC's petition did not specifically request it, the company subsequently clarified that a security interest in the borrower's assets may be required for the SRF loan. As a result, we grant approval, pursuant to RSA 369:2, for TRWC to provide a security interest in its real and personal property if needed to secure the loan. Additionally, our approval of this financing is based on the fact that the impact on ratepayers will be minimized due to the low interest rate and the 50% principal forgiveness of the loan. We will not at this time, however, approve any associated increase in rates. Once the projects are complete, the Company may request an increase in the form it deems appropriate.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, authority to undertake the financings proposed by TRWC, upon the terms and conditions proposed in its petition and as discussed above, is hereby **APPROVED**; 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 July 28, 2009 and to be documented by affidavit filed with this office on or before August 3, 2009; and it is

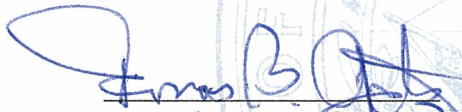
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than July 30, 2009 for the Commission's consideration; and it is


FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than July 31, 2009; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective August 3, 2009, unless the Petitioner 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

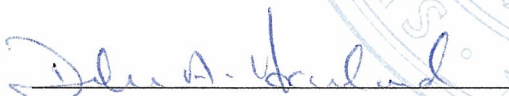
FURTHER ORDERED, that TRWC shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transactions contemplated hereby.

By order of the Public Utilities Commission of New Hampshire this twenty-third day of July, 2009.


Thomas B. Getz
Chairman


Clifton C. Below (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director

STEPHEN P ST CYR
STEPHEN P ST CYR & ASSOC
17 SKY OAKS DR
BIDDEFORD ME 04005

07/23/09 Order No. 24,988 issued and forwarded to all parties.
Copies given to PUC Staff.

Docket #: 09-117

Printed: July 23, 2009

FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),
WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:
DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
NHPUC
21 SOUTH FRUIT STREET, SUITE 10
CONCORD NH 03301-2429