

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 21, 2014
AT (OFFICE): NHPUC

FROM: Stephen Frink^{SFF}
Assistant Director – Gas & Water Division
Alex Speidel
Staff Attorney

NHPUC 21AUG14PM3:34

SUBJECT: DG 14-214 - Concord Steam Financing Petition

TO: Commissioners
Docket File
Service List

SUMMARY OF STAFF RECOMMENDATION

The petition should be granted, approving the financing and waiving the filing requirements. The financing is for three projects that are necessary to address safety concerns with Concord Steam's physical plant. The \$250,000 of new debt will have an annual interest rate of 4.07 percent and a maturity date of October 1, 2016.

BACKGROUND

On August 14, 2014, Concord Steam Corporation (Concord Steam or Company), a public utility supplying steam service in Concord, New Hampshire, filed a petition for approval to issue securities pursuant to RSA 369:1. The petition seeks Commission approval for a \$250,000 term loan to be used to replace a deaerating feed water heater and two underground expansion joints, and to repair the smoke stack at Concord Steam's South Campus facility. The water heater is over 35 years old, has pitting and weak spots as noted in an inspection report, and the estimated cost to replace the water heater is \$150,000. The water heater poses a significant safety risk due to the large amounts of scalding water and steam that could be released if it were to fail. Concord Steam commissioned an inspection of the smoke stack in October 2013 and the inspection report recommends making repairs expected to cost \$65,000. The Company is replacing two 12 inch expansion joints in the underground distribution steam system; the expansion joints are 25 years old and the estimated replacement cost is \$35,000.

The \$250,000 is to be financed over two years with an annual interest rate of 4.07 percent. The financing is with TD Bank and is a modification of an existing TD Bank long term loan approved by Order No. 24,673 (November 8, 2006). The initial loan was for \$795,000 and has an outstanding balance of \$281,668 as of July 31, 2014. The loan

modification increases the outstanding balance to \$531,668 but does not change the maturity date, and the monthly principal and interest payments are modified accordingly. The proposed financing will increase Concord Steam's overall debt as a percent of its capital structure from 25.5 percent to 28.75 percent and lower Concord Steam's weighted average cost of capital from 5.00 percent to 4.97 percent.

Pursuant to Puc 201.05, Concord Steam also seeks a waiver of Puc 1107.02(b)(7) requiring a copy of the applicable mortgage indenture as the Company does not have one available at this time, and Puc 1107.02(b)(9), as the loan will not result in the issuance of any new common or preferred Concord Steam stock.

STAFF RECOMMENDATION

The petition should be granted, approving the proposed financing and waiving the Puc 1107.02(b)(7) and (b)(9) filing requirements. The proceeds will be used to replace infrastructure that has failed or is at risk of failure and poses a safety hazard, and to repair deficiencies in the smoke stack as identified and recommend for replacement in a recent inspection report.

The annual interest rate of 4.07 percent compares favorably with the Prime Interest Rate, the interest charged by banks to their most creditworthy customers, which is 3.25 percent, identical to the Prime Interest Rate at the time of the original loan.

The financing is a modification of an existing loan and the filing includes the TD Bank letter of commitment detailing the modifications. Therefore, Puc 1107.02(b)(7) requiring the Company to file a mortgage indenture would add little or no additional value in the Commission's review of the financing request. Also, Puc 1107.02(b)(9) requiring a copy of terms of new common or preferred stock is not germane to this petition as Concord Steam is not issuing stock.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov

alexander.speidel@puc.nh.gov

amanda.noonan@puc.nh.gov

mark.naylor@puc.nh.gov

ocalitigation@oca.nh.gov

peter@concordsteam.com

steve.frink@puc.nh.gov

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.