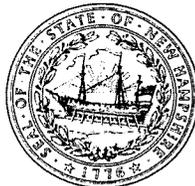


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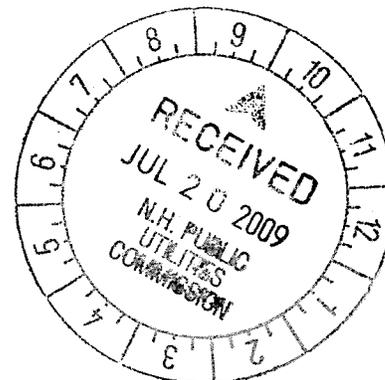
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PUBLIC UTILITIES COMMISSION
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

July 20, 2009

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: DW 09-117, Tioga River Water Company
Petition for Approval of Financing



Dear Ms. Howland:

On June 19, 2009, Tioga River Water Company (TRWC) filed a petition with the Commission seeking approval for financing related to proposed improvements in its two water systems, Gilford Village Water District in Gilford and its Tioga division in Belmont. The projects would be funded by American Recovery and Reinvestment Act monies provided through New Hampshire's State Revolving Loan Fund (SRF), administered by the New Hampshire Department of Environmental Services (NHDES). Additional information related to the filing was provided in response to Staff inquiries, and those responses are attached. The projects are described below:

- 1) Improvements to the Gilford system would include new booster pumps, an iron/manganese treatment system and a generator. Booster pumps are needed because the existing pumps are inadequate to meet peak demands. The treatment system will address continuing dirty water problems the system has experienced of late, as well as ongoing taste and odor issues. A generator would address periodic water outages resulting from loss of external power, but is a lower priority than the treatment system and booster pumps and will only be installed if sufficient funding remains (response to Staff 1-3 a). The Gilford system has 37 service connections, two of which serve elderly housing complexes of 22 and 24 units, respectively. Project cost is estimated at \$115,000.

An antiquated pump station will be replaced in the company's Belmont system, which has 22 service connections. The existing nearly 30 year old 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

anticipated in past Commission orders¹. The new station would greatly improve access, eliminate the moisture problems, include alarms and upgraded equipment, and incorporate treatment to address taste and odor and other water quality concerns. Project cost is estimated at \$151,000.

The total estimated cost of the above projects is \$266,000. Both projects are on the funded portion of the most recent NHDES drinking water economic stimulus priority list (June 9, 2009). Completion of both projects is anticipated this year if funding is approved.

Stimulus funding is expected to treat half of the overall cost of the \$266,000 financing as a grant over the life of the loan, in the form of principal and interest forgiveness. Terms would be similar to other recent SRF financings. It is expected that TRWC's loan will be repaid over a 20 year term, with an interest rate of 3.744%. 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.

The company's filing includes a request for authority to file for a step increase once the projects financed by this borrowing are completed, and estimates that this step adjustment would increase customer rates by 57.48% in Gilford and 74.20% in Belmont. According to the company's filing, the company is already highly leveraged. However, the company also anticipates filing a full rate case later this year, and Staff intends to address the company's capital structure in the context of that upcoming case. Staff would support the Commission approving a step adjustment filing so that TRWC's access to these ARRA funds is not jeopardized. However, Staff believes it is more appropriate for TRWC to seek recovery in the full rate case incorporating the plant assets in the instant proceeding, especially as this issue has been before the Commission recently².

The ARRA funding is competitive. The funded projects will address a number of important needs in each of the company's systems. As noted above, the benefits of this funding are significant. Staff has reviewed the petition and other information submitted by Tioga River Water Company in this docket. Staff supports approval of Tioga's financing request, and recommends the Commission approve it.

If you have any questions regarding this matter, please let me know.

Sincerely,



Douglas W. Brogan
Utility Engineer

Attachment - discovery responses

cc: Service list

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

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