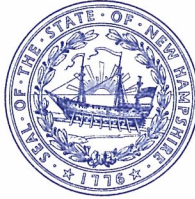


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THE STATE OF NEW HAMPSHIRE



PUBLIC UTILITIES COMMISSION

21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX (603) 271-3878

Website:
www.puc.nh.gov

April 6, 2012

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

Re: DW 12-048, West Swanzey Water Company, Inc.
Petition for Approval of Financing and Step Adjustment



Dear Ms. Howland:

On February 21, 2012, West Swanzey Water Company (West Swanzey) filed a petition with the Commission seeking to borrow up to \$40,000 for proposed improvements in its water system in the Town of Swanzey. The system serves 76 customers. The improvements would be funded through New Hampshire's State Revolving Loan Fund (SRF), administered by the New Hampshire Department of Environmental Services (DES). Included with West Swanzey's petition is the direct testimony of Stephen P. St. Cyr, a financial consultant for the company. Additional information related to the filing was provided in response to Staff data requests, and those responses are attached to this letter. After review, Staff recommends Commission approval of West Swanzey's request.

The project consists of redevelopment of the system's well #2 and repair or replacement of the associated well pump. Similar work was done on the system's other well in 2004, but no such work has been performed on well #2 since its installation over 40 years ago. The latter well and pump are currently performing at about 50% efficiency, and the proposed work will increase flows and reduce electrical costs. A future step increase was approved for this project in West Swanzey's rate case docket DW 10-159, with a filing anticipated by December 31, 2011. See Order No. 25,203 issued March 15, 2011¹. The deadline for the step adjustment filing was extended through the end of 2012 by secretarial

¹ The settlement agreement approved in Order No. 25,203 anticipated the total cost of this project to be approximately \$33,000. In its SRF application to DES, West Swanzey requested approval for a total of \$40,000 so as to include an amount for contingencies, as detailed in the testimony of Mr. St. Cyr. See also the company's response to Staff data request 1-2.

letter issued February 6, 2012. Completion of the project is anticipated by the end of September 2012, after which West Swanzey will file its step adjustment proposal.

West Swanzey's proposed financing for the project is, as noted above, through the SRF program with which the Commission is familiar. The loan will be on a 20 year term at an interest rate currently expected to be 3.104%. In addition, principal forgiveness of 25 percent of the loan value is anticipated based on the level of water rates relative to the median household income of customers within the West Swanzey water system. DES will make disbursements on the loan based on invoices submitted by contractors engaged by West Swanzey. The company has indicated in its response to Staff data request 1-1 that it likely will seek bids for this project. Interest will accrue at an annual rate of 1% on disbursed amounts through the date that the project is substantially completed. Payments of principal and interest will begin six months thereafter. SRF funding is competitive, and the proposed project ranked second among eight proposals evaluated by DES under its Green Infrastructure category.

Staff has thoroughly reviewed, and supports, this proposed financing as presented by West Swanzey. The procurement of an SRF loan for this project ensures that West Swanzey will finance these improvements at the lowest possible cost to customers². The project will allow needed source of supply work to be completed. Staff, therefore, recommends approval of West Swanzey's request for authority to borrow up to \$40,000 from the SRF to finance needed capital improvements at its West Swanzey water system.

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

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachment: Discovery Responses

cc: Service list

² Attachment SPS-5 to Mr. St. Cyr's testimony illustrates a potential rate impact to customers as a result of this project of 6.84%. Staff does not agree, however, with the proposed accounting treatment relative to the principal forgiveness portion of the SRF loan. The calculation in SPS-5 reflects only the first year of loan forgiveness as Contributions in Aid of Construction (CIAC). Additionally, as this project is to be 100% debt funded, SPS-5 should not reflect federal and state income taxes. These issues can be resolved at the time West Swanzey submits its step adjustment filing for rate recovery of this project.

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048
Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
Staff 1-1		Witness:	Stephen P. St. Cyr

Request: Is the proposed work likely to be put out to bid?

Response: Yes.

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048
Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
Staff 1-2		Witness:	Stephen P. St. Cyr

Request: Re: St. Cyr Testimony; Page 3; Line 17: It is indicated that a \$7,000 contingency amount has been added to the original estimated cost of \$33,000 which is approximate 21% increase. Please explain.

Response: The original estimate did not specifically have a contingency amount. The Company initially added a 10% contingency amount. However, after discussion with DES regarding the SRF funds, DES suggested and the Company agreed to a larger contingency amount for purposes of the financing.

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048
Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
Staff 1-3		Witness:	Stephen P. St. Cyr

Request: Re: St. Cyr Testimony; Page 5; Lines 18 through 22: Please provide documentation in support of the anticipated loan terms including the 25% principal forgiveness.

Response: See attached January 6, 2012 letter addressed to the Company from DES, which indicates “the current interest rate for a 20 year term loan is 3.104%. Principal forgiveness is determined upon substantial completion of the project and factor in the user rates and median household income.” DES has verbal informed the Company of the potential of the 25% principal forgiveness.



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

January 6, 2012

Sally Brown
West Swanzey Water Co.
PO Box 10
West Swanzey, NH 03469

**Subject: NH Drinking Water State Revolving Fund
Project Eligibility & Notice of Available Funds**

Dear Ms. Brown:

The purpose of this letter is to notify you that the water system improvement project that West Swanzey Water Co requested is eligible for funding.

On July 22, 2011, the New Hampshire Department of Environmental Services (DES) published the 2011 project priority list. The list identified the project submitted by West Swanzey Water Co. as eligible to receive funding through the state revolving fund loan program. Funding availability was contingent upon the grant being awarded to DES by the US Environmental Protection Agency (EPA), and West Swanzey Water Co entering into a loan agreement with DES.

On September 1, 2011, the EPA awarded to DES the 2011 grant and therefore project funds are now available for West Swanzey Water Co. The current interest rate for a 20 year term loan is 3.104%. Principal forgiveness is determined upon substantial completion of the project and factors in the user rates and median household income. This affordability index and corresponding principal forgiveness percentage is detailed in the 2011 Intended Use Plan prepared by DES and available online on the DWSRF page. We look forward to working with you to complete the application process.

Sincerely,

Daniel Dudley, DWSRF Program Manager
Drinking Water and Groundwater Bureau

cc: Stephen St. Cyr
Susan Willoughby, P.E., DES - DWGB
file

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048

Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
Staff 1-4		Witness:	Stephen P. St. Cyr

Request: Re: St. Cyr Testimony; Page 11; Lines 10 -12; Please explain and justify why only \$500 of \$40,000 is recognized as CIAC for ratemaking purposes and not the total anticipated loan forgiveness amount of \$10,000.

Response: The amortization schedule provided to the Company by DES shows the \$10,000 principal forgiveness as being forgiven monthly at a rate of \$41.84 per month over the 20 years of the loan. The rate making treatment corresponds to the CIAC being recognized monthly. I should also point out that the Company is reviewing whether the “principal forgiveness” should be recognized as CIAC or income for tax purposes. If such “principal forgiveness” is recognized as income, then there would be an income tax consequences of such recognition.

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048
Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
Staff 1-5		Witness:	Stephen P. St. Cyr

Request: Re: St. Cyr Testimony; Page 11; Line 17: It appears from Schedule SPS-5 that the anticipated electricity expense savings is \$902. Please confirm as well as explain how the amount of anticipated electricity expense savings was calculated.

Response: The Company and Staff agreed to a \$902 reduction in purchased power costs as a result of the anticipated capital improvements. The \$902 reduction is reflected on Attachment B, Schedule 1 of the Settlement Agreement approved by the Commission in DW 10-159.

West Swanzey Water Company
Petition for Approval of SRF Financing
DW 12-048
Company responses to Staff data requests – set 1

Date Request Received:	03/12/12	Date of Response:	03/22/12
<u>Staff 1-6</u>		<u>Witness:</u>	<u>Stephen P. St. Cyr</u>

Request: Re: St. Cyr Testimony; Page 12; Lines 19 through 21:

- a) Please explain and justify the inclusion of an income tax component in rates for an asset addition financed solely by debt.
- b) Re: Schedule SPS-9: Please explain how the pretax income amount of \$1,408 was determined.

Response:

- a) Given that the asset addition is being financed solely by debt, then there should not be any income tax consequence.
- b) See response to a).