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August 18, 2020

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

RE: DW 20-044 Abenaki Water Company, Inc.
Petition for Authority to Issue Debt
Staff Recommendation for Approval

Dear Ms. Howland:

On April 6, 2020, Abenaki Water Company, Inc. (Abenaki or the Company) submitted a petition pursuant to RSA 369:1, seeking authority to issue long-term debt. Abenaki intends to accept a \$45,000 loan and \$5,000 grant from the Drinking Water and Groundwater Trust Fund (DWGTF) administered by the New Hampshire Department of Environmental Services (DES). The proceeds of the loan and grant will be used to install a 10,000-gallon concrete tank and approximately four 2" gate valves in its Tioga-Belmont system. The testimony of Nicholas A. LaChance, Abenaki's Treasurer, and Stephen P. St. Cyr, Abenaki's regulatory finance consultant, accompanied the petition. After reviewing the filing, Staff recommends the Commission approve Abenaki's proposed financing as filed.

Under 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 involves looking beyond the actual terms of the proposed financing to the use of the funds and the effect on rates to insure the public good is protected. *Appeal of Easton*, 125 N.H. 205, 211 (1984). "[C]ertain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Pennichuck East Utility, Inc.*, Order No. 26,189 at 5 (November 6, 2018). "A routine financing request is one that will have no discernable impact on rates or deleterious effect on capitalization, and in which the funds are to enable appropriate investments in the ordinary course of utility operations." *West Swanzey Water Company, Inc.*, Order No 26,133 at 3 (May 10, 2018). If it is determined that the request is routine, the "Commission will use the more limited examination of whether the use of the financing proceeds is in the public good without further review of possible alternative uses of the funds. *Id.*

As evidenced below, Staff argues that this financing cannot be considered routine due to the impact on customer rates and the Company's capitalization. Staff believes, however, that due to the necessity of the proposed project, and that the financing through DES has already been authorized by the Drinking Water and Groundwater Advisory Commission, it is a necessary investment in the ordinary course of Abenaki's Tioga-Belmont system's operations, pursuant to their duty to provide safe and adequate water service, RSA 374:1. As such, Staff contends that a limited review of the purposes and impacts is justified and an investigation into the possible alternative use of the funds is not necessary.

Mr. LaChance's testimony provides a narrative detailing the need for Abenaki's proposed Tioga-Belmont storage and main valve project. Specifically, Mr. LaChance stated, "In December of 2019, the Tioga-Belmont distribution system experienced a break on a 2" distribution main at a nylon fitting. This break drained the 4,500-gallon storage tank overnight putting the system into a state of emergency. It took a period of time to identify the location of the leak; all the while the Company was purchasing bulk water deliveries to maintain service for 22 customers reliant on the system. The total expense incurred by the Company as a result of the bulk water deliveries, excavating, materials and labor spent to make the necessary repair was \$31,848; more than double the annual revenues of the Tioga Belmont system. As such, the Company is operating this system in a constant state of concern. At any time, a small 2-3 gallon per minute leak going undetected has the ability to drain the system within a day. This potential not only concerns the Company, but exposes the customers that rely on the system. The proposed project will diminish this prospect."

The Tioga-Belmont storage and main valve project will address the system's undersized storage capacity by constructing a pre-fabricated 10,000-gallon concrete water tank, replacing the existing steel 4,500-gallon water tank. The main valve project will install approximately four isolation valves in the distribution main system for leak detection or repair without disrupting each customer. The actual number of isolation valves to be installed will be determined during the final engineering design to be completed following this finance approval.

Mr. LaChance's testimony includes two letters from the DES. The first is a letter to Abenaki, dated February 14, 2020, detailing the funds authorized by the DWGTF Advisory Commission on February 10, 2020. The DWGTF Advisory Commission authorized Abenaki to borrow up to \$45,000 in loan funds and up to \$5,000 in grant funds for water system improvements at Abenaki's Tioga River-Belmont system. The second letter is from Cynthia Klevens, Small Systems Section Manager DES Drinking Water and Groundwater Bureau (DWGB), to Jayson Laflamme, PUC Assistant Director, Gas-Water Division, dated March 31, 2020. DES stated that the Tioga-Belmont system "is only one leak away from having no water for several days and placing the community in a public health emergency." The tank and valve project would improve Abenaki's ability to provide safe and reliable service to its customers. According to DES, the tank and valve project will be beneficial to the system, increasing storage for peak demands and increasing the ability to isolate portions of the system. Staff also engaged its engineering consultant, Douglas W. Brogan, to review the proposed project and address certain specifics with Ms. Klevens of DES. Mr. Brogan also participated in Staff

discovery. Attachments 1 and 2. Based on his review, Mr. Brogan represented to Staff that he believed the proposed project was appropriate.

While loan documentation is currently unavailable, DES confirmed:

- Abenaki will borrow up to \$45,000;
- the loan will mature 20 years from the date of closing;
- the annual interest rate will be 2.96 percent;
- during construction, interest will accrue at the rate of 1.00 percent per annum;
- after substantial completion, interest will begin to accrue at the approved interest rate;
- the first interest payment on the borrowed funds will be due six months following substantial completion, followed by six monthly, interest-only payments;
- monthly principal and interest payments will commence one year following substantial completion; and
- Abenaki will receive a \$5,000 grant.

Mr. St. Cyr's testimony describes the Company's December 31, 2019 debt to equity position as weighted toward debt, with a ratio of 58 percent debt, 42 percent equity. After the financing, the capital structure will be more heavily weighted toward debt, with a projected ratio of 73 percent debt and 27 percent equity.

Further, Mr. St. Cyr's testimony estimated an increase of \$3,947, or 8.87%, in Abenaki's revenue requirement based upon 100% use of the funds at the currently anticipated financing terms. Based on the projected increase in Revenue Requirement associated with this financing, the system's 22 residential customers would experience a projected average increase of \$14.95, or 23.56%, per month.

RSA 369:1 states that a utility may, "with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission "after such hearing or investigation as it may deem proper, shall determine the actual or probable cost incurred or to be incurred; and, if in its judgment the issue of such securities upon the terms proposed is consistent with the public good, it shall authorize the same to an amount sufficient, at the price fixed in accordance with the laws applicable thereto, to provide funds for defraying the cost as so determined." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984). As the Court in *Easton* stated:

We have held that the primary concern of the commission in ascertaining the public interest for purposes of capitalization is the protection of the consuming public. On the other hand, it has never been the position of this court that a utility completely surrenders its right to manage its own affairs merely by devoting its private business to a public use.

Appeal of Easton at 210-211 (quotations and citations omitted).

Staff recommends approval of the financing as proposed. The procurement of this DWGTF loan and grant ensures that the Company will finance the Tioga-Belmont storage and main valve project under very favorable terms, thereby mitigating the cost of such ultimately borne by its customers. The funds will be used to enhance system reliability and realize long-term savings by allowing the Company to have adequate storage capacity and isolation opportunities, saving the Company thousands of dollars as future leaks occur. As stated in Mr. LaChance's testimony, Abenaki incurred \$31,848 in expenses related to locating and repairing the recent leak in the Tioga-Belmont system. As shown in Mr. St. Cyr's testimony, however, anticipated ongoing expenses related to this financing will be only \$2,159.

Most importantly, without this financing, the Tioga-Belmont system will continue to be operated on the brink of a public health emergency. For these reasons, Staff believes Abenaki has demonstrated that the proposed use of the funds is appropriate, and that the financing is consistent with the public good and should be authorized, subject to further prudence review prior to rate recovery. RSAs 369:1 and :4, and RSA 378:28. Staff furthermore contends that the financing is consistent with the Company's duty to provide "reasonably safe and adequate and in all other respects just and reasonable" service to its customers per RSA 374:1.

Staff, as a result of its investigation and the issues explained above, recommends that the financing be approved without the need of a further hearing or examination into the alternative uses of the proposed financing due to the immediate necessity of the improvements addressed by the financing. See *Public Service Company of New Hampshire*, Order No. 25,050 at 14 (December 8, 2009) (the "proper application of *Easton* is determined by the context of the facts and issues of the case").

Staff, lastly, requests that the Commission also direct Abenaki to submit the final DWGTF loan and grant agreements within 10 days of execution, for review and recommendation of closure of the docket by Staff as appropriate.

Staff recommends that the Commission leave the record open for 10 days after the date of this recommendation to allow for either the Office of the Consumer Advocate or the Company to respond.

Thank you for your assistance and attention regarding this matter. If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Robyn J. Descoteau

Robyn J. Descoteau
Utility Analyst

cc: Service List