

THE STATE OF NEW HAMPSHIRE

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October 2, 2009

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429



Re: DG 09-146 Concord Steam Corporation
Petition for Increase in Short Term Debt Limit & Waiver of Puc 1106.03
Staff Recommendation

Dear Ms. Howland:

On August 14, 2009, Concord Steam Corporation (Concord Steam) filed a petition for approval of issuance of securities pursuant to RSA 369:7, and waiver of the requirements of N.H. Code Admin. Rules Puc 1106.03. The proposed financing would increase the short term borrowing limit from \$1,200,000 to \$1,750,000. Order No. 24,867 (June 27, 2008), approving the current short-term borrowing limit, calculated that the approved limit represented 23.1 percent of net fixed plant. The proposed short-term borrowing limit represents 24.6 percent of net fixed plant.

The reason for the proposed increase is to finance the cost of constructing a line extension to serve Rundlett Middle School. In essence, it will enable Concord Steam to take out a construction loan. The Concord School District approved bonding the project, and is to reimburse Concord Steam's construction loan with the proceeds from a December 2009 bond issuance. See attached Data Response to Staff 1-2. The timing of the construction loan coincides with Concord Steam's build up of wood chip inventories needed for the heating season. Wood chips are Concord Steam's primary fuel source, and the ability to purchase and store wood chips improves system reliability and creates buying opportunities, as wood chips can be purchased when demand is low and are then available and under Company control when needed during the heating season. Concord Steam does not recover the cost of the wood chips until they are used to generate steam and steam sales are billed and paid. The increase in the short-term borrowing limit will allow Concord Steam to finance the construction of the line extension pending

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reimbursement from the Concord School District, while enabling Concord Steam to maintain fuel inventories at optimal levels.

TD Bank, N.A., has agreed to loan Concord Steam \$550,000 based on the receivable from the Concord School District and, therefore, the loan is not subject to debt service coverage restrictions. *See* attached Data Response to Staff 1-1. The loan is to be secured by all assets of the company such as accounts receivable, machinery and equipment, inventory and intangible assets; due on December 31, 2009 with an interest rate equal to the *Wall Street Journal* prime rate plus 200 basis points, adjusted daily; and personally guaranteed by Peter Bloomfield and Mark Saltsman, officers and directors of the company.

Based on its review of the filing and discovery and for the reasons cited above, Staff recommends that the Commission grant Concord Steam's request for a waiver of the requirements of Puc 1106.03 and approve the proposed increase in the short term borrowing limit on a temporary basis, thereby establishing a short term debt limit of \$1,750,000 that will revert back to the current level of \$1,200,000 once the construction loan is paid off.

Sincerely,

A handwritten signature in blue ink that reads "Stephen P. Frink". The signature is written in a cursive style with a horizontal line above the name.

Stephen P. Frink
Assistant Director, Gas & Water Division

cc: Service List

DG 09-146
Concord Steam Corporation
Petition for Issuance of Securities

Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-1

Date of Response 09/25/09
Witness: Peter Bloomfield

Request:

Please calculate the debt service coverage ratio as of 12/31/08 and a pro forma debt service coverage ratio for 12/31/09 (2009 pro forma with and without \$550,000 loan). Show each component per the formula required by the bank and explain all assumptions used in the calculation.

Response:

The debt service coverage ratio for 2008 will be negative due to FY 2008 loss.

Debt service:

Long term loan payments in 2008 = \$128,330/year

Net Operating Income for 2008 = \$(177,570)

Debt service coverage ratio - = $\$128,330 / \$ (177,570) = (0.72)$

The bank has agreed to the \$550,000 loan based on the receivable from the Concord School district. This is a short term loan that is not subject to debt service coverage ratio restrictions.

DG 09-146
Concord Steam Corporation
Petition for Issuance of Securities

Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-2

Date of Response 09/25/09
Witness: Peter Bloomfield

Request:

When is the School District expected to issue bonds, receive the proceeds and pay Concord Steam the \$550,000 contribution in aid of construction?

Response:

The bonds are expected to be sold in December, 2009. Concord Steam will be paid as soon as the funds are available, which should be within a week of sale.