

THE STATE OF NEW HAMPSHIRE



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August 27, 2013

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

Re: DW 13-217 Eastman Sewer Company, Inc.
Capital Reserve Fund Request
Staff Recommendation to Approve Request

Dear Ms. Howland:

On July 25, 2013, the Commission received a request from Eastman Sewer Company, Inc. (Eastman) for authorization to use \$16,132.28 from Eastman's capital reserve fund. These funds are to be used to pay for capital expenses related to Eastman's evaluation of alternatives with respect to its compliance issues with the discharge of treated effluent in its sewage treatment process. On August 16, 2013, Eastman filed an additional request to use \$6,000 of the fund for installation of data logging capability in the company's lagoon pump station. After review, Staff recommends approval of both requests.

In Dockets DW 12-157, DW 12-290, and DW 12-370 the Commission provided approval by way of secretarial letter for use of capital reserve funds for the costs related to the evaluation of Eastman's treatment and disposal process. Eastman's consultant, Underwood Engineers, issued a final report on January 4 of this year which recommended pursuing subsurface disposal using drip dispersal to replace the existing spray irrigation. Eastman's filings and Staff's recommendation letters filed in those three dockets contain additional detail on this work. The instant request for use of \$16,132.28 from the capital reserve fund involves payment to Underwood Engineers for its evaluation of the suitability of two separate sites for establishment of a subsurface disposal system. Underwood's July 15, 2013 letter to Eastman, included in the July 25 filing in this docket, provides substantial detail on this process. As a result of these evaluations, Underwood has recommended that Eastman move forward with one of the two sites.

The second request for use of \$6,000 is for the installation of data logging capability in Eastman's lagoon pump station. This equipment will reduce the cost to operate the system by approximately \$5,000 annually, as it will permit the reduction in the number of station checks by

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the company's system operator from daily to three per week. Thus, the company will receive a payback of this capital investment in just over one year.

If the instant requests are approved, Eastman's capital reserve fund will be depleted. In order to pay for the data logging installation in full, the company will need to wait until additional capital reserve funds are deposited from customer billings in the near future. The establishment of a new subsurface disposal system has a total anticipated budget of \$845,000 and clearly Eastman cannot count on the capital reserve fund in any significant amount for this project. Staff has discussed this issue with the company, and Eastman indicates that it will seek financing through the Village District of Eastman (VDE) once the company is transferred to VDE as currently requested in Docket No. DW 13-171. If that transfer should not be approved by the Commission, Eastman states that it will need to seek outside bank financing and begin the approval process with the Commission. Eastman has also filed a pre-application for Clean Water State Revolving Funds for this project. The company has indicated to Staff that, while it is not currently eligible for these funds because it is not a public entity, a transfer to VDE could change that.

Eastman's capital reserve fund was established by Commission order in 1992 when rates were first set for Eastman, as a way of addressing Eastman's undercapitalization. Eastman is required to seek Commission authorization for use of these funds. As the requested withdrawal is to be used for capital expenditures as originally intended by the Commission in 1992. Staff believes the use of the funds for the intended purposes is appropriate and will enable the company to continue to provide safe and adequate service pursuant to RSA 374:1. Staff recommends approval of Eastman's request.

If there are any questions regarding this, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "Mark A. Naylor". The signature is written in a cursive style with a large initial "M".

Mark A. Naylor
Director, Gas & Water Division