

THE STATE OF NEW HAMPSHIRE



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NHPUC 30OCT17PM4:06

October 30, 2017

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

Re: DW 17-142, Bodwell Waste Services Corp.
Petition for Authority to Issue Long-term Debt
Staff Recommendation

Dear Ms. Howland:

On September 17, 2017, Bodwell Waste Services Corp. (Bodwell) submitted a request pursuant to RSA 369:1 for authority to issue long-term debt. Bodwell's petition was accompanied by the prefiled testimony of Stephen P. St. Cyr, a financial consultant to Bodwell. Bodwell is a regulated sewer utility serving approximately 539 customers in limited areas of Manchester and Londonderry. The company seeks to borrow \$450,000 from Merrimack County Savings Bank (MCSB) in order to refinance a promissory note to its shareholder, to pay past due payments on that note, and to pay past due amounts to several vendors. After review, Staff recommends approval, but also suggests that future capital additions be financed by the addition of equity capital to the company's capital structure.

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. *See 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." *Lakes Region Water Company, Inc.*, Order No. 25,753 (January 13, 2015) at 4-5, citing *Public Service Company of NH*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

Bodwell has a commitment from MCSB for a \$450,000 term loan with a 15 year term. The loan has a fixed interest rate of 4.75% for the first five years, and then that rate adjusts every 5 years based on the Federal Home Loan Bank amortizing advance rate plus a margin of 2.75%. Bodwell is to provide a first security lien on all its business assets; Bodwell's shareholder Robert S. LaMontagne is to be an unlimited guarantor. Bodwell has fallen behind on its note payments to its shareholder, as well as to a number of vendors. The shareholder note was executed in 2001 with an original principle balance of \$445,000, a term of 25 years, and an annual interest rate of 8.5%. The new \$450,000 loan will refinance the promissory note to Mr. LaMontagne and 13 missed monthly payments on that note that together total about \$343,000. The remainder of the proceeds will be used to pay past due amounts to vendors of the company, as detailed in Bodwell's petition. During 2017 Bodwell has had to make significant capital improvements, one of which was an emergency main break, and these have contributed to Bodwell's cash flow issue. The proposed refinancing will result in slightly lower monthly payments due to the extended term and lower interest rate than that of the original shareholder note.

In its review, Staff submitted discovery requests to Bodwell; the responses are attached to this letter. Staff is supportive of this financing request, because the financing as proposed should have no impact on rates, it will enable the company to pay down accounts payable, and will slightly improve Bodwell's cash flow. However, Staff believes Bodwell is going to need equity capital in the near future. Its capitalization ratio after the execution of this note will be 96% debt and 4% equity. In spite of the company's profitability, the company is generating very little net operating income to build equity. For example, in 2016 Bodwell had net operating income of \$33,176, but \$25,434 of that was used for interest payments. A more balanced capital structure by incorporating equity for future capital improvement needs would alleviate this situation over time.

In summary, Staff recommends approval of this financing request, but recommends that future capital improvement needs be financed by equity capital for the reasons stated in this letter.

DW 17-142 Bodwell Waste Services Corp.
Petition for Approval of Long-term Debt
Staff Recommendation for Approval
Page 3 of 3

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

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Cc: service list
Attachments

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 1

Data Request Received: 9/26/17

Date of Response: 10/06/17

Request No. Staff 1-1

Witness: Stephen P. St. Cyr

Request: Is the company now current on all of its operating expenses?

Response: No.

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 1

Data Request Received: 9/26/17

Date of Response: 10/06/17

Request No. Staff 1-2

Witness: Stephen P. St. Cyr

Request: Please provide an update on the status of the City of Manchester's sewer expansion project and the potential impact on Bodwell Waste Services Corp.

Response: The City is having difficulties getting easements from condo associations. They have been working on it for over 6 months. They have no idea when things will be resolved. Therefore, there is no timeline for construction. The City's extension of its sewer main into Bodwell's franchise area has the potential to eliminate the need for the pump stations and the company. However, the Company still has a significant investment in its sewer plant including the pump stations and it still owes on a significant amount of debt.

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 1

Data Request Received: 9/26/17

Date of Response: 10/06/17

Request No. Staff 1-3

Witness: Stephen P. St. Cyr

Request: At the end of 2016 the company's annual report indicated the balance of the note payable to the owner was \$289,006. Please reconcile with the \$296,526 on page 1 of the petition.

Response:

2001 Promissory Note, 7/31/16 balance	\$296,526
August – December Principal Payments	<u>7,520</u>
2001 Promissory Note, 12/31/16 balance	<u>\$289,006</u>

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 1

Data Request Received: 9/26/17

Date of Response: 10/06/17

Request No. Staff 1-4

Witness: Stephen P. St. Cyr

Request: What work was done to generate \$63,818 in debt to AAA Pump?

Response: More than half of the costs are related to the recent sewer main replacement project on Bodwell Road (\$26,540) and installation of auto dialer at the Mill Pond pump station (\$5,919). The remaining work is mostly regular, normal operating and maintenance at the 3 pump stations that has occurred over a number of months.

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 2

Data Request Received: 10/19/17

Date of Response: 10/25/17

Request No. Staff 2-1

Witness: Stephen P. St. Cyr

Request: If Bodwell Waste Services Corporation closes on the transaction as proposed in this petition, its capitalization ratio will be 96% debt and 4% equity. a) Is the company willing to seek an infusion of equity in order to strengthen its cash position and move the capital structure to a more balanced one? b) If the response to part a) is no, please explain why.

Response: No. The owner is unwilling to infuse equity since it is unlikely that the owner will ever either receive a return on or recover the equity investment. The capital structure has always been substantially debt. The refinancing / financing simply maintains the current capital structure. The Company needs the refinancing / financing in order to take care of the current cash crunch. It is difficult to ask the owner to put in additional equity when the Company has been unable to meet its current debt obligation to the owner.

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 2

Data Request Received: 10/19/17

Date of Response: 10/25/17

Request No. Staff 2-2

Witness: Stephen P. St. Cyr

Request: In the petition it is stated that this refinancing will improve cash flow, yet it is also stated that the new monthly payment will be "slightly lower" than the existing debt payments. Please explain how cash flow will be improved.

Response: It improves cash flow by eliminating the past due account payables, allowing the Company to be current on its current expenses and its debt payments under the new refinancing / financing is less than the existing debt payments.

DW 17-142
Bodwell Waste Services Corp.
Financing Petition
Staff Data Requests-Set 2

Data Request Received: 10/19/17 Date of Response: 10/25/17

Request No. Staff 2-3 Witness: Stephen P. St. Cyr

Request: Bodwell's 2016 net operating income of \$33,176 results in a return on rate base of about 12%. Given these earnings, net depreciation of about \$20,000, and the fact that only \$9,000 in new plant was placed in service, please explain why the company fell behind in its accounts payable during 2016.

Response: The Company has been falling behind for a number of years. This is not just something that has happened in 2016. In fact, it is likely that Bodwell would have continued to limp along had it not been for the significant capital replacement of sewer main and the capital improvement of the auto dialer in 2017. It limped along by not meeting its debt obligation to its owner and not being current with its manager and its operator. While the additions to plant in 2016 were somewhat reasonable, that has not always been the case. A quick look at the last 5 years shows the following addition to plant:

2012	\$34,076
2013	0
2014	\$15,539
2015	\$14,218
2016	<u>\$10,844</u>
Total	<u>\$75,677</u>

Since the Company did not borrow any funds to pay for such additions, it paid for the additions out of cash from operations over time by not paying its owner, manager and operator. The financing of the past due amounts essentially represents of the financings of additions over this time period. It should also be noted that in recent years, its contracted services to AAA Pump has increased due to the increase in Londonderry customers and the related increase in sewer flow. The increase in sewer flow has increased the operation and maintenance of the pump stations, particularly the Millpond and Rosecliff stations.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 17-142-1 Printed: October 30, 2017

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**