

DG 03-139

CONCORD STEAM CORPORATION

**Petition to Finance Equipment, Increase Line of Credit
and Issue a Secured 5-year \$500,000 Note**

Order Approving Financings

O R D E R N O. 24,205

September 5, 2003

I. BACKGROUND

On July 22, 2003, Concord Steam Corporation (Concord Steam), a public utility supplying steam service to approximately 125 commercial and institutional customers in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Approval of Issuance of Securities Pursuant to RSA 369:1. The petition seeks Commission approval for three financings: (1) a 2001 financing in the amount of \$43,723 for the purchase of a backhoe; (2) to increase a \$345,000 line of credit to \$400,000; and, (3) issue a \$500,000 5-year Secured Note to finance the renovation of Concord Steam's wood burning equipment. Staff Data Requests were propounded on August 6, 2003. Responses were filed by the Company on August 18, 2003.

II. COMMISSION ANALYSIS

A. Backhoe Financing

On July 31, 2001, Concord Steam purchased a backhoe for \$58,588 to replace an existing backhoe. The purchase price was

reduced to \$43,723 based on a trade-in allowance. Concord Steam financed the \$43,723 through a security agreement. The terms of the loan call for equal monthly payments over a three year period, with zero percent interest and the backhoe as the security for the loan. At the time, due to the nature and size of the transaction, Concord Steam failed to recognize the transaction required Commission approval. The Commission Audit Staff, in its Final Audit Report (dated November 21, 2002) of its review of Concord Steam's books and records, pointed out that the three year term of the financing constitutes long term debt and requires Commission approval pursuant to RSA 369:1. The current petition seeks to rectify that oversight.

We find the backhoe is a reasonable and prudent purchase by Concord for use in providing steam service to its customers, as evidenced by including that equipment in rate base, and by reflecting the operating and depreciation expenses associated with it, in determining the permanent rates approved by the Commission in *Concord Steam Corporation*, Order No. 24,147 (March 28, 2003) in Docket No. DG 02-125. It is noteworthy that the loan is interest free for the three year term. We approve this financing.

B. Increase in Line of Credit

Concord Steam is seeking Commission authority to increase its existing \$345,000 credit line to \$400,000. The

terms of the credit line remain unchanged, a variable rate set at the Prime Floating rate, 4.00 percent as of August 18, 2003, payable upon demand.

NH Admin. Rule Puc 507.08, limits use of short term debt without Commission approval to 10 percent of net fixed plant, and is designed to allow a utility to fund typical short term cash requirements (i.e., receivables, inventory, interim construction funding) up to a reasonable level. Concord Steam's data response to Staff Data Request 1-6, providing a revised Pro Forma Balance Sheet at year end (following completion of the wood burning equipment renovation), reflects a net plant balance of \$3,961,309. The \$400,000 credit line is 10.097 percent of the Pro Forma year end balance and, for practical purposes, is within the 'reasonable' level established by the Commission for short term debt. We find the terms of Concord Steam credit line are reasonable and typical of such short-term debt.

C. Long Term Financing Regarding Wood Burning Equipment Renovation

Concord Steam is seeking Commission approval to issue a note payable for \$500,000 over five (5) years with the interest to be set at the 5-year Federal Home Loan Bank (FHLB) fixed rate plus 2.5% three months from the date of the closing. The 5-year fixed FHLB rate as of August 18, 2003 is 2.99%, which would translate to a 5.49% interest at this time. Prior to locking in the 5-year rate, Concord Steam would draw on the loan over three

months and only pay interest on the outstanding balance, at a variable interest rate equal to the Prime Floating Rate. The proceeds are to be used to fund the renovation of wood burning equipment, at an anticipated cost of \$585,600 and the amount of the loan is not to exceed 90% of the documented costs. Early repayment is subject to a pre-payment penalty in years 1 through 5 of 5%, 4%, 3%, 2% and 1%, respectively. The loan is to be secured by all business assets of the company.

Commission Order No. 24,147, approving Concord Steam's delivery rates, allowed a return on wood burning equipment and recovery of certain wood burning costs through the Cost of Energy (COE) mechanism to encourage the use of wood as an energy source when economical. Both in the above docket and the most recent COE proceeding (Docket No. DG 03-024), Concord Steam testified as to the potential economic efficiencies associated with the use of wood as an alternate fuel source and, in order to burn wood again, that Concord Steam would have to renovate its wood burning equipment.

Renovating the wood burning equipment requires a large capital expenditure, but having the ability to burn wood should enable Concord Steam's customers to realize the potential savings in energy rates and provide added rate stability over a number of years, as explained in *Concord Steam Corporation*, Order No. 24,147 (March 28, 2003), slip op. at 8. The proposed long term

debt is being offered at a competitive rate. We find this financing to be consistent with the public good and we will approve it.

D. Conclusion

Under the proposed financings, Concord Steam's capital structure will see an increase in long term debt from 1.35% to 11.05% and in short term debt from 9.03% to 10.20%. As the cost of debt is typically well below the return on equity, there should be a reduction in the cost of capital in the event Concord Steam were to file another general rate case, which should benefit rate payers.

Concord Steam's filing included a certification, pursuant to NH Admin. Rules Puc 509.04(d), that Concord Steam believes that each of the securities to be issued will enhance Concord Steam's ability to perform the day-to-day work necessary to supply steam service to its customers and, therefore, is consistent with the public good. Concord Steam further alleges that it is entitled to issue said securities under RSA 369 for the purposes set forth in its petition.

We have reviewed Concord Steam's filing in this proceeding and for the reasons cited above, find that the proposal will enable Concord Steam to continue operations cost effectively while increasing the potential for lower and more stable energy costs. Accordingly, pursuant to RSA 369:1, 369:2,

and 369:7, we find the petition is consistent with the public good and is approved.

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam Petition for Authority to finance \$43,723 of equipment, increase its line of credit to \$400,000 and issue a \$500,000 5-year Secured Note is APPROVED; and it is

FURTHER ORDERED, that the interest rate on the line of credit be payable at a variable rate no greater than the Prime Floating Rate; and it is

FURTHER ORDERED, that the interest rate on the 5-year Secured Note be no greater than either the Prime Floating Rate as a variable rate or the Federal Home Loan Bank rate plus 2.5% if a fixed rate; and it is

FURTHER ORDERED, that the proceeds of the 5-year Secured Note be used to finance the renovation of Concord Steam's wood burning equipment; and it is

FURTHER ORDERED, that Concord Steam, upon completion of the renovation of its wood burning equipment, shall file with the Commission a detailed statement of the cost of the renovation and the disposition of the proceeds of the 5-year Secured Note; and it is

FURTHER ORDERED, that Concord Steam, within 10 days of the closing, shall submit a signed copy of the credit line and

signed copy of the 5-year Secured Note.

By order of the Public Utilities Commission of New
Hampshire this fifth day of September, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary