

**DG 06-111**

**CONCORD STEAM CORPORATION**

**Petition for Approval of Issuance of Securities**

**Order Approving Debt Financing Request**

**ORDER NO. 24,673**

**September 29, 2006**

**I. PROCEDURAL HISTORY AND BACKGROUND**

On August 21, 2006, Concord Steam Corporation (CSC or the Company), a public utility supplying steam service to approximately 120 commercial and institutional customers and one residential customer in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Approval of Issuance of Securities (Petition) pursuant to RSA 369:1. The Petition seeks Commission approval for a \$1.0 million term loan to be used for the following purposes: (1) make certain repairs to its two wood storage silos, the roof of the boiler room, and a conveyor belt in the amount of \$555,000; (2) refinance its existing long term debt of \$240,000 for cash flow reasons; and, (3) purchase equipment necessary to process and transport wood chips as part of its wood burning operation in the amount of \$205,000.

As reflected in the commitment letter from TD BankNorth, the loan would be made for a three-year term which would be extended for up to an additional seven years, for a maximum term of ten years, at such time as CSC's lease of its Pleasant Street facilities from the State of New Hampshire<sup>1</sup> is renewed for a term equal or longer than the seven-year extension. The loan would be amortized on a ten-year schedule. The interest rate payable on the loan would be equal to two percent above the One-Month London Interbank Offering Rate (LIBOR), and an origination fee of \$2,500 would be due at closing. As of the date of the commitment letter, the

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<sup>1</sup> The lease expires by its terms in 2010.

LIBOR was 5.33 percent, which would result in an estimated initial interest rate of 7.33 percent. CSC would have the opportunity to hedge all or a portion of its borrowing costs by entering into an interest rate swap agreement with the lender at closing. As security for the loan, the lender would obtain a first security interest in all assets of CSC, including accounts receivables, machinery and equipment, inventory intangible assets, and corporate stock of CSC. In addition, the personal guarantees of Peter Bloomfield and Mark Saltsman are required.

Staff issued a series of data requests to CSC and responses were received on September 11, 2006. Subsequently, a series of follow-up requests and responses were exchanged during the period September 14, 2006, through September 20, 2006, and, on September 15, 2006, Staff met with Peter Bloomfield to further discuss the Petition. On September 28, 2006, Commission Staff filed with the Commission a memorandum recommending approval of \$795,000 of the financing request, and reserving judgment on the remaining \$205,000 of the proposed financing pending further review and analysis.

CSC has indicated to Staff that it has substantially drawn down its \$700,000 short term line of credit to fund fuel purchases and other operational costs and CSC has recently requested an early decision on the Petition. CSC has also stated to Staff that although it must draw the final total of the loan proceeds within sixty days of the acceptance by CSC of the financing commitment, it does not need to draw all of the new loan proceeds at one time and it may draw less than the full \$1.0 million.

## **II. COMMISSION ANALYSIS**

RSA 369:1 requires Commission approval for the issuance of debt payable more than one year thereafter. In order to approve the issuance, the Commission must find that it is consistent with the public good. *Id.* The Commission's approval extends to the amount of the issuance and

its purposes and shall be subject to reasonable terms and conditions found to be necessary for the public interest. *Id.* The New Hampshire Supreme Court has held that the Commission's role encompasses considerations beyond merely the terms of the financing and extends to the economic justifiability of the object of the financing compared to other options available to the utility. *See Appeal of Roger Easton*, 125 N.H. 205, 212 (1984); *see also Appeal of Seacoast Anti-Pollution League*, 125 N.H. 708, 711 (1984).

We first examine and analyze the uses to which the loan proceeds will be put before discussing: the impact of the new loan on the capital structure of CSC; the terms of the loan; and, the issue raised by the possibility that CSC's lease with the State may not be renewed, causing the loan to become due and payable in full in 2009.

#### **A. Silo Repairs, Roof Repairs, Conveyor Belt Repairs**

CSC is in the process of making repairs to its two wood storage silos, the roof of the boiler room and repairs to the conveyor belt used in connection with generating steam. The estimated cost of these repairs is \$555,000. In the past, the Commission has supported CSC's initiative to renovate its wood burning facilities in order to enable CSC's customers to realize the potential savings in energy rates from burning wood, where economical, rather than relying on other more costly fuels, while at the same time providing for added rate stability over a number of years.<sup>2</sup> CSC estimates in its Petition that the annual savings are approximately \$1,200,000 compared to burning higher priced oil to generate steam. In order to continue to achieve such savings, we conclude that the

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<sup>2</sup> Numerous Commission orders support CSC's initiative to renovate its wood burning equipment, including *Concord Steam Corporation*, 88 NH PUC 157, Order No. 24,147 (2003) (Permanent Base Rates); 88 NH PUC 409, Order No. 24,205 (2003) (Financing Petition); 89 NH PUC 617, Order No. 24,390 (2004) (Cost of Energy); and Order No. 24,472 (2005) (Permanent Base Rates).

repairs are reasonable and prudent and that the financing in respect to these expenditures is appropriate.

### **B. Refinancing of Existing Long-Term Debt**

CSC proposes to use a portion of the loan proceeds, \$240,000, to refinance the outstanding amount of its existing long term debt<sup>3</sup> and thus improve CSC's cash flow. Although interest costs on the new loan are likely to be higher than under the existing long term debt (the updated estimate of the interest rate is 7.44% under the new loan versus 5.05% for the existing long term debt), the annual payments will be significantly lower than under the existing long term debt. The refinancing is expected to improve CSC's cash flow by \$80,000 per year during the next three years.

As of September 20, 2006, approximately \$550,000 of CSC's short term line of credit was outstanding and only about \$150,000 remained available to CSC. Because CSC purchases wood chips in advance of the heating season and before it receives revenue from customer bills, it may have to draw on the remaining amount of the short term line of credit, which would likely result in a tight cash flow situation. The refinancing will help to improve such a situation. We thus conclude that the use of \$240,000 to refinance CSC's existing long-term debt is appropriate.

### **C. Purchase Equipment Necessary to Process and Transport Wood Chips**

CSC proposes to use the balance of the new loan, \$205,000, for the purchase of equipment necessary to process and transport wood chips. Until recently, CSC purchased wood chips from a wood yard operator with a place of business in Pembroke, New Hampshire which delivered the wood chips to CSC's on-premises silos. For various

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<sup>3</sup> The Commission approved long term debt of \$500,000 in *Concord Steam Corporation*, 88 NH PUC 409, Order No. 24,205 (2003).

reasons, CSC has now decided to conduct the wood processing and delivery operations as part of the regulated utility at a new business location in Pembroke leased from BS & Chips, LLC, an affiliate of CSC.

CSC has made two other filings that are related to this component of the proposed filing. CSC's 2006/2007 Cost of Energy filing, Docket No. DG 06-127, scheduled for hearing on October 30, 2006, includes issues regarding the recoverability from ratepayers of certain of the costs of the lease, the trucks, and corollary expenses along with salaries and wages, depreciation and maintenance, and other expenses to perform wood yard operations on the leased premises. In addition, CSC has filed with the Commission the affiliate lease agreement with BS & Chips, LLC, which has been docketed as DG 06-114.

Staff has indicated that, given the interrelationships of these three dockets, it needs additional time to review the pertinent data and information in order to make an informed recommendation about this component of the financing. On the state of the record in the present docket, we are unable to reach final determination with respect to whether this component of the financing is consistent with the public good. Accordingly, we will reserve judgment on whether this last component is appropriate and whether the costs related to this component may be recovered from ratepayers. Pending a Commission ruling on this issue, any investment in wood chip related equipment and corresponding financing costs are the responsibility of the shareholders.

#### **D. Other Considerations**

The proposed interest rate is justifiable in light of current market conditions and the other terms of the loan<sup>4</sup> appear to be common in financings of this kind. Staff reviewed the impact of the loan request on CSC's overall capital structure and concluded

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<sup>4</sup> The provisions of the proposed loan regarding its term are separately discussed below.

that the proformed capital structure of CSC, adjusted to include the additional \$1.0 million long term loan, produces a favorable result, showing a reduction in the percentage of the equity component of the capital structure. Before the loan, the equity component was approximately 85 percent of CSC's overall capital structure. After the loan, the equity component will be approximately 70 percent of the overall capital structure. In the long run, this reduction in the percentage of the equity component is likely to lower the overall cost of capital since the cost of the equity component is typically assigned a higher cost than the debt component.

Staff has expressed concern about the possibility that CSC's lease with the State of New Hampshire may not be renewed or extended. This possibility creates uncertainties for all parties involved since, if the lease is not renewed, the outstanding amount of the loan becomes due and payable a year before the lease otherwise expires and in such event CSC will not have recovered from ratepayers the amount necessary to pay the loan off when it would come due.

The Company has an immediate need for an infusion of new capital to operate its business. Considering the presently available alternatives to the proposed financing,<sup>5</sup> we are persuaded that the Petition should be approved, subject to two caveats. First, as set forth above, we reserve judgment about the reasonableness of the wood yard operations component of the requested financing. We expect to issue a supplemental order regarding this matter in the near future. In addition, we observe that the possibility of non-renewal of CSC's lease with the State of New Hampshire poses risks to the

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<sup>5</sup> Based on information provided by the Company, Staff stated that increasing the existing amount of the short term line of credit would likely result in higher interest costs and be disadvantageous to the Company's cash flow situation and infusing new equity capital is not feasible at this time. Thus, there does not appear to be a feasible alternative that is superior to the financing requested by the Company.

Company, its lenders, shareholders and customers. Our approval of the Petition as set forth herein should not be construed as imposing on ratepayers the financial risks in connection with the loan from potential non-renewal of the lease and we retain all rights to establish reasonable rates payable by the Company's customers in future periods. Even so, we find that the interests of ratepayers will be best served if the lease issue is thoroughly explored and resolved by the parties to the lease with all deliberate speed.

**Based upon the foregoing**, it is hereby

**ORDERED**, the Petition is approved on the terms, and to the extent, set forth herein.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of September, 2006.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary