

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 12-048

WEST SWANZEY WATER COMPANY, INC.

Petition for Approval of Financing and Step Adjustment

Order *Nisi* Approving Financing

ORDER NO. 25,347

April 11, 2012

I. BACKGROUND

On February 21, 2012, West Swanzey Water Company, Inc. (West Swanzey) filed a petition seeking authority to borrow up to \$40,000 in long term debt pursuant to RSA 369:1 and filed schedules and testimony supporting that request. West Swanzey proposes to borrow from the State Revolving Loan Fund (SRF) administered by the New Hampshire Department of Environmental Services (DES). The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2012/12-048.html>.

West Swanzey serves approximately 76 customers in the Town of West Swanzey and its water system dates from the 1960's. The proceeds of the financing would enable West Swanzey to redevelop Well No. 2, and repair or replace the associated well pump. Well No. 2 has not been rehabilitated in over 40 years and is currently operating at approximately 50 percent efficiency. The proposed work is intended to restore capacity and reduce electrical operating costs. A step increase in rates for this proposed project was approved in West Swanzey's most recent rate case, Docket No. DW 10-159 by Order No. 25,203 (March 15, 2011). The December

31, 2011 deadline in that order was extended one year at West Swanzey's request by secretarial letter dated February 6, 2012. The filing for the step increase would occur after completion of the project, currently anticipated to occur this fall.

The proposed SRF loan is for a 20-year term at an interest rate not expected to exceed 3.104%. Principal forgiveness is anticipated at 25 percent of the loan value, based on the level of water rates relative to the median household income of customers within the West Swanzey water system. During construction, the advances made by DES will accrue interest at 1.00% until substantial completion of the project. Approximately six months after project completion, monthly payments of principal and interest will commence. SRF funding is competitive and the proposed project ranked second among eight proposals in the Green Infrastructure category as evaluated by DES.

On April 6, 2012, Staff filed a recommendation that the Commission approve West Swanzey's petition. Staff stated that it concurred with the need for the proposed improvements as well as the appropriateness of the proposed borrowing at the favorable terms offered by the SRF program. Staff disagreed with the proposed accounting treatment but stated it believed the issue could be resolved when West Swanzey seeks its step increase.

II. COMMISSION ANALYSIS

Pursuant to 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 consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds, and the effect on rates, in order to insure that the public good is

protected. *See Appeal of Easton*, 125 N.H. 205, 211 (1984). As we have previously noted, “certain 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.” *In re Public Service Company of New Hampshire*, Order No. 25,050, 94 NH PUC 691, 699 (2009).

West Swanzey has asked to borrow \$40,000 to finance water well improvements in its water system with the intent to improve capacity and efficiency. DES supports the financing and has ranked the project second out of eight SRF applications in the Green Infrastructure category. The need for these capital improvements was also part of the record in West Swanzey’s 2010 rate case. These capital improvements are consistent with the type of management decisions the Commission expects to be made in the course of proper utility operation and, as a result, this financing is on the more routine end of the spectrum. We find the use of the proceeds of the financing to be reasonable and appropriate.

As to the terms and the effect of this financing on rates, the loan funds originate through the SRF and are provided on extremely favorable terms. The interest rate is expected to be no more than 3.104% and the 25% loan forgiveness enables West Swanzey to finance the project at the lowest possible cost to customers. While the ultimate rate impact to customers will not be determined until after the step increase is filed, West Swanzey has estimated the impact to be just under 7%. Staff noted in its recommendation letter that it disagreed with the company’s proposed accounting treatment related to the principal forgiveness portion of the loan, as well as the inclusion of income tax in the company’s calculation of the rate impact. Staff further

indicated that these issues can be resolved when West Swanzey files its step adjustment request later this year, and we agree. Given the importance of these improvements to the company's ability to continue to provide safe and adequate service, we find the terms and the effect of the financing on rates to be reasonable.

Having reviewed the filing and Staff's recommendation, we find that West Swanzey has demonstrated that the proposed project will enable it to provide reliable service to its customers at an advantageous cost. We find the terms of the financing to be consistent with the public good and we approve the amount and purpose of the financing. Although West Swanzey did not specifically request it, our recent experience with petitions for SRF loans is that a security interest in the borrower's assets may be required. In this light, we provide our approval, pursuant to RSA 369:2, for West Swanzey to provide a security interest in its real and personal property, if needed to secure the loan. This approval is given on the condition that the final terms are not substantially different from those proposed in West Swanzey's filing. If such terms vary significantly, we will require West Swanzey to seek additional Commission approval. We will issue this order on a nisi basis to afford interested parties notice and an opportunity to be heard.

Based upon the foregoing, it is hereby

ORDERED NISI, that subject to the effective date below, the request to undertake the proposed financing, under the terms and conditions contained in West Swanzey's petition and as outlined herein, is hereby APPROVED; and it is

FURTHER ORDERED, that West Swanzey shall cause a copy of this Order *Nisi* to be mailed by first class mail to all of its customers as well as the Town Clerk for the Town of West

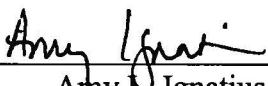
Swanzy, such mailing to occur no later than April 20, 2012 and to be documented by affidavit filed with this office on or before May 11, 2012; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than April 27, 2012 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than May 4, 2012; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective May 11, 2012, unless West Swanzy Water Company, Inc. fails to satisfy the mailing obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.


By order of the Public Utilities Commission of New Hampshire this eleventh day of April, 2012.



Amy L. Ignatius
Chairman



Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director