

DW 03-154

WEST SWANZEY WATER COMPANY, INC.

Petition for Authority to Issue Long Term Debt

Order Nisi Approving Petition Subject to Certain Conditions

O R D E R N O. 24,206

September 5, 2003

I. PROCEDURAL HISTORY AND BACKGROUND

The petitioner, West Swanzey Water Company, Inc. (West Swanzey or the Company), is a New Hampshire public utility as defined in RSA 362:2 and 362:4. On August 12, 2003, the Company filed a petition with the New Hampshire Public Utilities Commission (Commission), pursuant to RSA 369, requesting authorization to issue up to \$175,000 in long term debt in order to finance certain water system improvements that are required by the New Hampshire Department of Environmental Services (NHDES).

The Company currently serves approximately 80 units of housing in the Town of West Swanzey, New Hampshire. It has been approached by one developer requesting water service to an additional 90 units of housing as well as another developer requesting service to 32 units. Presently, the Company cannot meet these requests for service without exceeding its capacity for storage. In order to accommodate this anticipated growth, NHDES is requiring the Company to install more storage. In

addition, NHDES is requiring the Company to install a master meter at its wells in order to monitor water production.

In order to meet the requirements of NHDES, the Company plans to make the following improvements: (i) add a new storage tank and meter, (ii) monitor water leaks in the system, (iii) change piping to provide one common water main at the wells, (iv) provide new electrical and heating at the well houses, and, (v) provide an autodialer for alarm notification. In correspondence dated July 8, 2003, NHDES gave its approval for all of these improvements. The Company intends to put the proposed improvements out to bid in early October 2003 in order to comply with the NHDES requirements by December 2003. The total cost of these improvements is estimated to be approximately \$175,000.

The Company is proposing to finance these improvements through a secured long term loan from the Granite Bank of Keene, New Hampshire. The proposed terms of the financing as outlined in a letter of commitment from Granite Bank, dated August 15, 2003, include the following: (i) the financing shall consist of a \$175,000 Line of Credit for eight months converting to a twenty-year amortizing term note, (ii) the initial interest rate will be 6.00% for the eight-month interest only period as well as the first five year amortization period, after which, the interest rate will be

adjusted then and every five years thenceforth to the Wall Street Journal Prime rate plus 1.50%, and, (iii) the loan will mature in twenty years and eight months from the date of closing with interest only payable during the initial eight month period and with principal and interest payable monthly in the amount of approximately \$1,254 commencing one month following the eight-month interest only period.

In support of its request for approval, West Swanzey avers that the proposed financing is in the public interest and consistent with the public good because it will enhance the Company's ability to provide safe and reliable drinking water to its customers in its franchise area at a reasonable cost. The Company also asserts that the proposed system improvements are reasonably necessary to provide such service to the Company's customers.

On August 26, 2003, Staff filed a memorandum recommending the Commission approve the Petition by issuance of an order nisi.

II. COMMISSION ANALYSIS

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State may issue evidences 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." The New

Hampshire Supreme Court has further provided that the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

In the case at hand, the proposed financing will be used to fund various system improvements that have been mandated by NHDES in order to effectively serve both existing as well as anticipated future customers within the Company's franchise area. The Commission notes correspondence from NHDES dated July 8, 2003, which approves the improvements proposed by West Swanzey. The Commission Staff has also reviewed the proposed improvements to the Company's system and also finds them to be reasonably necessary in order to meet the needs of both current and future customers.

Anticipating that the proposed financing may affect the overall cost of capital to ratepayers, we must also review that aspect of the financing. As is set forth, the proposed financing from Granite Bank of Keene, New Hampshire in an amount up to \$175,000 will be payable over a term of twenty years and eight months with an initial interest rate of 6.00% which will be adjusted every five years to the Wall Street Journal Prime rate plus 1.50%. The Commission notes from the prepared testimony of the Company's accountant, Stephen P. St.

Cyr, that an attempt was made to obtain financing for these improvements from the State Revolving Fund. However, the Company's request did not make the State's priority list. Under the circumstances, we believe that the 6.00% interest rate proposed for this financing is a favorable rate for a utility of this size and nature especially since no funding from the State Revolving Loan Fund was available for these improvements. The 6.00% interest rate is also comparable to recent financing approvals granted by this Commission for other small water companies.

The Commission also notes from Mr. St. Cyr's testimony the significant impact the proposed financing will have on the Company's capitalization ratio. Currently, the Company's capitalization consists of approximately 36% debt and 64% equity. However, with the addition of the proposed debt, the Company's capitalization ratio will be approximately 77% debt to 23% equity. While this scenario may initially increase the risk under which this Company will operate, the added revenue generated from the addition of new customers to the system made possible by the proposed improvements should alleviate the increased debt service as well as eventually improve this ratio.

Under the circumstances, we find that the terms and conditions of the loan are just and reasonable and the

proposed use of the funds to be prudent and in the public good.

Based upon the foregoing, it is hereby

ORDERED NISI, that, pursuant to RSA 369:1-4, the proposed financing, upon the terms and conditions proposed in the Company's petition and as set forth in the letter of commitment from Granite Bank dated August 15, 2003, and subject to the terms and conditions specified in this Order, is consistent with the public good; and it is

FURTHER ORDERED, that, pursuant to RSA 369:1-4, the Company is authorized to borrow an amount up to \$175,000 from the Granite Bank of Keene, New Hampshire under the terms and conditions set forth under the letter of commitment from Granite Bank dated August 15, 2003; and it is

FURTHER ORDERED, that, the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than September 12, 2003 and to be documented by affidavit filed with this office on or before September 26, 2003; and it is

FURTHER ORDERED, that, all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this

matter before the Commission no later than September 19, 2003;
and it is

FURTHER ORDERED, that, any party interested in
responding to such comments or request for hearing shall do so no
later than September 24, 2003; and it is

FURTHER ORDERED, that, this Order Nisi shall be
effective September 26, 2003, unless the Petitioner fails to
satisfy the publication obligation set forth above or the
Commission provides otherwise in a supplemental order issued
prior to the effective date; and it is

FURTHER ORDERED, that, the Petitioner shall file true
copies of the loan documents executed or otherwise finally issued
in connection with the closing of the transactions contemplated
hereby.

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