

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7277

Petition of Arlington Water Company for )  
consent to issue evidence of indebtedness for the )  
purpose of financing certain upgrades to its )  
water system )

Order entered: 5/10/2007

**I. INTRODUCTION**

On March 7, 2007, the Arlington Water Company ("Arlington" or "Company") filed, pursuant to 30 V.S.A. § 108, a petition with the Public Service Board ("Board") seeking Board consent to borrow up to \$680,000 and to mortgage corporate property. Arlington proposes to use the proceeds to implement a series of recommendations made in an October 28, 2003, engineering study; a study that the Board required the Company to complete in Docket 6490.<sup>1</sup> Specifically, Arlington proposes two projects: (1) to install a 1,550 foot, 8-inch water main connecting customers residing on East Arlington Road to facilities located along Route 7A; and (2) to replace up to 3,400 feet of existing water mains.<sup>2</sup> According to Arlington, the proposed water system improvements will help the Company work towards complying with the requirements of the Safe Drinking Water Act. As a result, Arlington is eligible to borrow the necessary funds from the State of Vermont's Drinking Water State Revolving Loan Fund Program ("DWRLF") at a three percent annual interest rate for twenty years. The DWRLF loan application process requires that Arlington first obtain project approval from the Board and then

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1. Order of March 27, 2002.

2. Hereafter, the proposal to install new water mains and pressure valves, and replace certain existing water mains shall be referred to as the Projects.

the Vermont Agency of Natural Resources, Department of Environmental Conservation, Water Supply Division ("WSD") and the Vermont Economic Development Authority ("VEDA").<sup>3</sup>

Arlington maintains that the installation of the proposed East Arlington Road water main would provide for significant improvement in fire protection, a redundant connection between customers located along the eastern and western sides of the water system and improve water quality. Arlington also asserts that replacement of older water mains is also expected to improve system water pressure, reduce leakage and maintenance expenses. In support of the petition, Arlington submitted the affidavits of Burr Snow, Vice President of Arlington, and Mark P. Youngstrom, P.E., of Otter Creek Engineering, Inc., on behalf of Arlington.

On March 30, 2007, the Department informed the Board that it had reviewed Arlington's petition. According to the Department, the Projects are necessary to comply with the directives of the WSD, federal regulations and Board Orders. Additionally, the Department notes that the Projects would help to improve service, fire protection and water quality. Based on its review, the Department recommends that the Board approve the Company's request without further investigation or hearing. The Department also recommends that the Board require Arlington to provide the Board and the Department with final loan closing documents and signed project approvals from WSD and VEDA.

Based on Arlington's representations, including the Company's information responses dated April 18 and 23, 2007,<sup>4</sup> and the Department's recommendation, I conclude that Arlington's request to issue evidence of indebtedness in an amount not to exceed \$680,000 would be

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3. VEDA is the disbursement and management authority for the loans provided under the DWRLF program, and the agency responsible for reviewing loan applications.

4. On April 4 and 5, 2007, I emailed to the Parties a series of questions seeking additional information and clarity about the proposed financing and the Projects discussed above. I also expressed concern about the effect the proposed projects would have on Arlington's rates. Specifically, I asked for additional information as to whether either of the projects could be postponed in order reduce the amount of the rate request filed with the Board. *See*, next footnote and discussion below.

consistent with the general good of the State of Vermont. The proposed projects would provide for improvements in fire protection, system redundancy and better water quality. The Projects are also necessary to comply with the requirements of the Company's Temporary Operating Permit ("TOP") that was issued by the WSD and should not be postponed, as the TOP expires on February 7, 2008 (Exh. AWC-1). It is important to note, however, that my recommendation should not be construed as an endorsement of Arlington's request for a 41.7 percent rate increase.<sup>5</sup> That request will be reviewed in a separate proceeding.

## **II. FINDINGS**

Pursuant to 30 V.S.A. § 8, I hereby report the following findings to the Board.

1. Arlington Water Company is a capital stock corporation organized and existing under the laws of the State of Vermont, with its principal office in Arlington, Vermont. Petition at 1.
2. The Company is engaged in the business of providing water service to approximately 469 residential customers in the Towns of Arlington and Sunderland, Vermont, and is subject to the jurisdiction of the Vermont Public Service Board. Petition at 1; Arlington's 2005 Annual Report.
3. In October, 2003, Arlington completed a detailed engineering study of its water system in compliance with the Board's Order in Docket No. 6490. The report recommended that Arlington install a new 8-inch water main loop, a pressure regulating valve and replace water mains at various locations ("Projects"). Snow Affidavit at 1; Petition at 1-2.
4. The proposed projects, which are expected to cost approximately \$550,000, will provide for improved fire protection, system redundancy and better water quality. Snow Affidavit at 2-3; Youngstrom Affidavit at 1-2.

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5. On March 23, 2007, Arlington filed a request to increase rates by 41.7% effective July 1, 2007 (Tariff Filing #7860). According to Arlington, the rate increase is necessary in order to cover the debt service incurred to finance the above-referenced projects.

5. Additional bank proceeds (i.e., \$130,000) will be used for Engineering and other costs related to financing and legal expenses. Attachment Youngstrom-C.

6. It is necessary for the Company to issue evidence of indebtedness in the amount of \$680,000, and to mortgage its corporate property, in order to fund the construction of the proposed projects, as the Company does not have sufficient internal funds to pay for them. Snow Affidavit at 3; Petition at 1.

7. The proposed borrowing will be used to fund the construction of the Projects. Arlington expects to complete the Projects by October 15, 2007. Petition at 3; Snow Affidavit at 3.

8. Completion of the projects is necessary to comply with WSD directives and federal regulations. Department letter of March 30, 2007; exh. AWC-1.

9. The proposed Projects are on WSD's funding priority list. Youngstrom Affidavit at 3.

10. The East Arlington Loop project (new water mains) cannot be postponed without violating Arlington's Temporary Operating Permit issued by WSD, which is due to expire on February 7, 2008. Failure to complete the construction of the East Arlington Loop by February 7, 2008, may subject the Company to penalties or other enforcement actions by the WSD. Exh. PSB-1; exh. AWC-1.

11. Replacing older water mains is necessary under a general provision of the Temporary Operating Permit. Sections of the system that have been identified for replacement have a history of leakage, are expensive to maintain and well beyond their useful life. Due to size limitations, the older mains also need to be replaced because they do not comply with modern technical standards and, therefore, have been causing pressure and fire flow problems. Exh. - PSB-1.

12. Projects that facilitate compliance with or further the health protection objectives of the Safe Drinking Water Act are eligible for financing through the Vermont Drinking Water State Revolving Fund. Youngstrom Affidavit at 3.

13. Subject to meeting WSD's and VEDA's underwriting requirements, the terms of the Vermont Drinking Water State Revolving Fund are three percent per annum for a period of twenty years. Principal and Interest on the proposed loan would not be payable until at least one year after construction is complete and operational. Snow Affidavit at 3; Department letter of March 30, 2007.

14. Conventional bank financing would carry an interest rate of between 8 and 10 percent per annum. Snow Affidavit at 4.

### **III. CONCLUSION**

30 V.S.A. § 108(a) states:

A domestic corporation subject to the jurisdiction of the public service board shall not mortgage nor pledge any of its corporate property nor issue any stocks, bonds, notes or other evidences of indebtedness without the consent of the public service board given on petition and after opportunity for hearing of the corporation or its incorporators and a finding of the board that the proposed action will be consistent with the general good of the state. Notice of the hearing shall be given as the board directs.

Based on the record, I find that approval of the Company's request to issue evidence of indebtedness, and to mortgage corporate property, is consistent with the general good of the state of Vermont. The proposed Projects are necessary under the Company's TOP, which is due to expire on February 7, 2008, and should not be postponed. Postponing the Projects may result in penalties or other enforcement actions by the WSD. Moreover, postponing these Projects could

also result in a further deterioration in water quality and extra costs in the long-run.<sup>6</sup> As discussed above, the proposed Projects are expected to improve fire protection, system redundancy, water quality and reduce leakage. Such improvements should therefore result in significant benefits to Arlington's customers and the community.

Because of VEDA's involvement, Arlington will be able to take advantage of below-market interest rates to finance the construction of the proposed Projects resulting in lower customer costs over the 20-year term of the loan. Thus, I recommend that the Board issue an order consenting to the issuance of evidence of indebtedness in an amount that is not to exceed a total of \$680,000, and the pledging of corporate assets necessary to secure the proposed loan. If Arlington is unable to secure approval of the proposed loan with VEDA, or any another financial institution, at a fixed interest rate of no more than three percent rate per annum, then I would also recommend that the Board require Arlington to return for approval for any alternative financing terms. Additionally, I recommend that the Board require Arlington to provide the Board and the Department with final loan closing documents and signed project approvals from WSD and VEDA within 10 business days of the loan closing date.

It is worth reiterating here that my recommendation should not be construed as an endorsement or approval of Arlington's request to increase rates by 41.7 percent. As mentioned above, that petition will be reviewed separately in another docket.

#### Opportunity to File Exceptions and Present Arguments

The Department and Arlington have waived their opportunity to file exceptions and present arguments pursuant to 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 9<sup>th</sup> day of May, 2007.

s/Thomas Lyle

Thomas Lyle  
Hearing Officer

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6. Additional costs may include the extra cost of engaging another construction crew at a future date for a smaller project, and thus forfeiting the economies of scale that are typically associated with larger projects.

**IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, conclusions and recommendations of the Hearing Officer are adopted.
2. Pursuant to 30 V.S.A. § 108, the Board consents to the issuance of evidence of indebtedness by Arlington Water Company in accordance with the petition.
3. The Board's consent is limited to the terms and conditions described in Arlington's petition. If Arlington is unable to secure financing with the Vermont Economic Development Authority, or any other financial institution, at a fixed interest rate of no more than three percent per annum, then Arlington must obtain Board approval for any alternative proposed financing terms.
4. The issuance of indebtedness up to \$680,000 by Arlington Water Company, and the pledging of corporate assets to secure the proposed loan, is consistent with the general good of the State of Vermont.
5. Arlington Water Company shall provide the Public Service Board and the Department of Public Service with signed letters from the Vermont Agency of Natural Resources, Department of Environmental Conservation, Water Supply Division and the Vermont Economic Development Authority approving the proposed projects.
6. Arlington Water Company shall provide copies of the final loan closing documents to the Department and the Board within ten days of consummating the proposed loan.
7. This Order does not constitute approval of proposed projects or the underlying capital structure that may result from the proposed loan referenced herein, nor an approval of the Company's request on March 23, 2007, to increase rates. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing and/or challenging the resulting capital structure and revenue requirement in any future proceeding.

Dated at Montpelier, Vermont, this 10<sup>th</sup> day of May, 2007.

s/James Volz )

) PUBLIC SERVICE

s/David C. Coen )

) BOARD

s/John D. Burke )

) OF VERMONT

OFFICE OF THE CLERK

FILED: May 10, 2007

ATTEST: s/Susan M. Hudson  
Clerk of the Board

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*