



To: All Eastman Sewer Users
From: Eastman Sewer Board
Date: September 28, 2011

RE: Explanation of rate increase

Background: The annual operating budget for the Eastman Sewer Company (ESC) has been about \$115,000. This budget included service and maintenance of the system, equipment repairs, insurance, utilities, water sampling, and general business expenses.

There were no rate increases for sewer users for 16 years (until 2009). That is a statement that virtually no other public utility in the world could make. Also, the Public Utilities Commission (PUC), which regulates the ESC, limits the amount of money that can be added to the Capital Reserve Fund to \$10,000 annually, an amount which is clearly insufficient to fund the necessary updates to our 35-year old system. The ESC Capital Fund balance is currently \$56,000, but the ESC cannot use a dime of this money without PUC approval.

The two rate increases that went into effect in 2009 (a temporary increase of \$10.42 and secondary increase of \$19.44) brought the quarterly fee to \$75.44 (\$301.76 per annum, per user property). Per PUC requirement, however, the quarterly fee was reduced to \$68.32 (\$273.27 per annum) after our legal expenses were recouped.

Further, the PUC requires that any necessary funding in excess of the available capital be obtained through borrowing, eliminating any other possible funding sources. There are currently 535 residential sewer users and 2 commercial users (over one-third of all Eastman properties) who are responsible for paying the operating expenses and any loan principal and interest.

In 2008, the ESC arranged to borrow \$35,000 from the ECA because there were not sufficient resources to pay for some expenses related to normal operations and for initial engineering work on two capital projects, which are now complete (see below). Most, but not all, of this money was released, and monthly payments were made as stipulated in the agreement between ESC and ECA.

The PUC finally approved the ESC's plan to apply for a bank loan to cover the two capital projects. The ECA Council then approved the ESC's request to have ECA cosign the loan from Lake Sunapee Bank for a total of \$380,000 (June 2009 Council meeting). With those funds in hand, ESC paid the remainder of the initial \$35,000 ECA loan plus interest (9/8/09). The other funds were then earmarked for the capital projects. (It is worth noting that it is very unlikely that ESC will be able to borrow funds for future capital projects without an ECA loan guarantee.)

The process for PUC approval of the rate increases and the borrowing of funds took 15 months to complete and cost ESC over \$24,000 in legal fees and hundreds of hours of time by both ECA staff and volunteer ESC Board members. Putting this in perspective, that \$24,000 was about 21% of the entire ESC annual budget!

The two capital projects mentioned above were the “Headworks” Reconstruction and the West Cove “A” Pump Station Revitalization. The “headworks” facility is the mechanical gate through which all wastewater flows upon reaching the treatment plant at the end of Clearwater Drive and the new building to house it. The headworks processes the wastewater and prepares it for gravity distribution into the aeration lagoons.

The West Cove A pump station is the initial collection point for wastewater from all of the condominiums in West Cove A-D as well as the homes on Old Spring Drive, Robin Lane, Butternut Road, and Mill Pond Lane, which are on the sewer system. Together, these upgrades have significantly enhanced the system’s operation and provided additional measures to minimize disruptions in the event of power failures.

The Rate Increase: The PUC requires that all project work be fully completed, and all documentation and final invoices supplied, before the ESC can even apply for a rate increase to recover the cost of these improvements. While the actual work was completed in March, final invoices were not submitted to ESC until May. We filed our rate increase request with the PUC on May 26th.

Unfortunately, the lending bank required that we begin to pay principal and interest at a monthly rate of \$4,262 when we borrowed the money. So we have been paying for several months. As a result, we have depleted our operating funds and been forced to borrow once again from ECA to pay our monthly expenses and for this debt service (\$25,000 was approved by ECA Board of Directors on August 16th).

The new annual operating budget for ESC will be approximately \$140,000 and will cover all the same operational expenses as before. Additionally, approximately \$60,000 collected from the new approved rate increase will be deposited annually in the Capital Reserve to fund the debt service on the Lake Sunapee Bank loan, as well as to help fund ongoing capital projects.

The rate increase from the PUC was authorized finally on August 4th. It took 70 days for approval, and the increase was not allowed to be effective until September 2nd (over 3 months from our submission date). The PUC has authorized the ESC to increase our annual revenue by \$50,886 for these capital projects to pay off the bank loan in 8 years, 11 months at 4.375% interest. Therefore, the new user rate reflects this revenue increase. It will now be \$368.39 per annum, or \$92.10 per quarter. Our two commercial customers (ECA and Country Houses) will have increases in their rates as well. The PUC ruled these increases “just, reasonable, and consistent with the public good.”

Please note – the quarterly bill enclosed with this mailing includes a one-time surcharge of \$7.83. This surcharge was approved by the PUC (9/27/11) so the ESC can “recover the rate increase expenses associated with the step increase request” (legal fees).

Future Considerations: Besides the constant financial and time consuming challenges associated with PUC regulation, our sewer system is aging. More improvements and updates will be required - some sooner, some over time. A 10-year Capital Improvement Schedule is being developed that we will share with you along with estimated costs and options for financing.

The ESC is also under the auspices of the Department of Environmental Services, and the DES permit compliance and its disinfection limitations for wastewater (effluent) discharge through irrigation onto the golf course (our only current way of disposing of our treated wastewater) have been made more stringent. We have hired an outside consulting company to determine the best way(s) to meet these new parameters. Their recommendations will have an impact on how we treat wastewater, and/or how we discharge it or otherwise dispose of it in the future.

We will continue to keep you posted on all of these developments as they move forward.

Sincerely,

The Eastman Sewer Board