

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 13-335**

**LAKES REGION WATER COMPANY, INC.**

**Petition for Approval of Long-Term Financing**

**Order *Nisi* Approving Financing**

**ORDER NO. 25,655**

**April 29, 2014**

In this order, the Commission approves \$900,000 in long-term debt and a \$50,000 line of credit for Lakes Region to allow for refinancing existing debt, paying federal and state income taxes, and improving operating cash flow. This order is being issued on a *nisi* basis to ensure that all interested parties receive notice of the Commission's determination and have the opportunity to request a hearing prior to the effective date of the order.

**I. BACKGROUND**

Lakes Region Water Company, Inc., (Lakes Region) provides water service to approximately 1,650 customers in several communities in central New Hampshire. On November 26, 2013, Lakes Region filed for authority to borrow \$900,000 and to obtain a \$50,000 line of credit from CoBank. *See* RSA 369:1-4. The financing is for the purpose of refinancing existing debt, paying accounts payable and 2013 federal and state income taxes, and improving operating cash flow. In support of its request Lakes Region filed the testimony of Timothy Fontaine, Utility Manager for Lakes Region, schedules, and loan documents. On December 2, 2013, the Office of the Consumer Advocate (OCA) filed notice of its intent to participate in the proceeding. *See* RSA 363:28. The petition and subsequent docket filings, other than any 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/2013/13-335.html>.

CoBank is a Government Sponsored Enterprise owned by its customers and provides financial services to agribusinesses and rural utilities in all 50 states. CoBank is a member of the Farm Credit System established by Congress in 1916 and issues debt securities with the implicit full faith and credit of the U.S. Government. As a result, its borrowing costs are generally lower than commercial banks and financial institutions. Testimony of Timothy Fontaine, November 25, 2013, at 3-4. CoBank also generally has fewer covenants or restrictions as compared with loans from commercial banks. *Id.*

Lakes Region negotiated three loans with CoBank. The first Cobank loan will be in the amount of \$500,000. It will be secured and have a 15-year fixed-rate that will not exceed 5.75%. Lakes Region will use this loan to refinance three existing loans with TD Bank. The first TD Bank loan has an interest rate of 6.09%, a current balance of \$228,724, and a balloon payment due January 13, 2014. TD Bank has extended the January 13, 2014, payment deadline. Staff Recommendation at 2. The second TD Bank loan has an interest rate of 5.58%, a current balance of \$209,862, and a balloon payment due on January 13, 2015. The third TD Bank loan has an interest rate of 6.29%, a current balance of \$72,972, and a balloon payment due December 29, 2014.

The second CoBank loan will be in the amount of \$400,000. It will be secured and have a 5-year fixed-rate that will not exceed 4.50%. Lakes Region will use this loan to pay accounts payable of approximately \$334,000 and its estimated, accrued 2013 federal and state income tax liability. Petition at 3. Lakes Region stated that its accounts payable consists primarily of consulting expenses incurred in its last rate proceeding and other proceedings before the

Commission. *Id.* Lakes Region stated that it negotiated substantial reductions with its vendors, ranging from 20 to 50%, for a total reduction of approximately \$112,000, if payment is made prior to December 31, 2013. *Id.* Lakes Region expects that vendors will honor the write-offs notwithstanding the lapse of the December 31, 2013, deadline. Staff Recommendation at 18. If a vendor does not agree to the write-offs, then Lakes Region will not include the debt of that particular vendor in the refinancing and will instead negotiate a payment plan. *Id.*

The third CoBank loan will be in the amount of \$50,000 and will consist of a secured, 1-year revolving line of credit with an adjustable interest rate set at CoBank's weekly stated rate. Lakes Region will use this line of credit on an as-needed basis. Petition at 2. Lakes Region plans to join CoBank's Patronage Program which will lower the effective interest rate by 75 basis points per annum. *Id.*

Lakes Region urged the Commission to approve its request. According to Lakes Region, the CoBank financings will allow it to reduce its cost of service, make funds available to pay rate case expenses and deferred assets, and realize negotiated reductions in its accounts payable. *Id.* at 3. Lakes Region will be able to pay its accrued 2013 federal and state tax obligations. *Id.* Lakes Region stated that the financial stability provided by the financings will allow it to move away from a cash-on-delivery relationship with its suppliers. Testimony of Timothy Fontaine, November 25, 2013, at 5.

On March 7, 2014, Staff recommended that the Commission approve Lakes Region's request. Staff based its recommendation on four factors. First, the TD Bank financings are due for substantial balloon payments by next January, and Lakes Region must meet those obligations. Staff Recommendation at 2. Second, Lakes Region negotiated \$112,000 in discounts from vendors contingent on payment from the CoBank proceeds. *Id.* Lakes Region

stated in discovery that it expects vendors will honor the write-offs notwithstanding the lapse of the December 31, 2013, deadline. *Id.* at 18. Third, financings will improve Lakes Region's balance sheet by reducing the accounts payable. *Id.* at 2. Fourth, the financings will improve Lakes Region's capitalization, which according to Staff, has become too heavily weighted toward equity. *Id.*

Staff stated that reducing the ratio of equity in the capital structure will directly benefit customers by lowering Lakes Region's overall weighted cost of capital. *Id.* After the CoBank financing, Lakes Region's capital structure will be 39% debt and 61% equity. *Id.* In comparison, as of December 31, 2013, Lakes Region's capital structure was 28% debt and 72% equity. *Id.* Staff opined that the proposed use of the CoBank funds is appropriate, that the terms of the financings are reasonable, and that there will be no negative impact on customer rates. *Id.*

Although Staff supports the proposed financing, Staff expressed concern that the loan payments will tighten Lakes Region's cash flow. In particular, Staff stated that Lakes Region plans to seek Commission approval in 2014 to acquire the Mount Roberts property from Lakes Region's shareholder. *Id.* at 3. Lakes Region's supply wells for its Paradise Shores water system are located on this property. *Id.* According to Staff, Lakes Region's analysis of the impact of the CoBank financing did not include the anticipated future financial impact associated with the Mount Roberts purchase. *Id.* at 3 and 51. In response to Staff's concern, Lakes Region stated that it may acquire the property in the form of equity, or through a capital lease. *Id.* In either event, the costs of the acquisition would presumably be recoverable through customer rates. *Id.* Due to the unsettled nature of the Mount Roberts acquisition and the benefits of the CoBank financing, Staff explained that it will forego further inquiry at this time as to the potential cash flow impacts of the acquisition and await Lakes Region's proposed filing. Staff

also expressed concern regarding Lakes Region's vendor write-offs. Staff stated that in Lakes Region's last rate case, the Commission authorized Lakes Region to recover certain rate case expenses from customers. *See, Lakes Region Water Company, Inc.*, Order No. 25,454 (Jan. 17, 2013). Some of those expenses were for vendors with whom Lakes Region has now negotiated write-offs. *Id.* at 3. Staff opined that the write-offs should, in some manner, be reflected as a reduction in the amounts recovered from customers. Staff Recommendation at 3. Staff stated this issue cannot be resolved until Lakes Region's next general rate case but that it wanted to alert the Commission to this issue. *Id.* Finally, Staff stated that it consulted with the OCA with respect to its recommendation and that the OCA supported the proposed financing but that it also shared Staff's concerns. *Id.* at 4.

## **II. COMMISSION ANALYSIS**

Pursuant to RSA 369:1, public utilities may incur long-term debt obligations only if the Commission finds that incurring the debt is "consistent with the public good." The Commission's protection of the public good involves looking beyond actual terms of the financing to the use of the proceeds and to the effect on rates. *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 PSNH*, Order No. 25,050 at 14 (December 8, 2009). We will review Lakes Region's request in light of our obligation under *Easton*. A limited review of the uses of the proceeds and the effect of the financing on rates is appropriate here and consistent with that obligation.

We find the uses of the proceeds to be reasonable. In particular, Lakes Region will use the proceeds of the \$500,000 CoBank loan to refinance three existing TD Bank loans previously approved by the Commission. Petition at 2. The replacement of debt owed to TD Bank with debt owed to CoBank will not adversely affect Lakes Region's capital structure because it is a straight refinancing of existing debt. Additionally, the interest rate of the \$500,000 CoBank loan is not expected to exceed 5.75%. Petition at 2. The interest rates of the underlying TD Bank loans are 6.09%, 5.58%, and 6.29%. Therefore, using the proceeds of the CoBank loan to refinance the TD Bank loans will lower Lakes Region's overall cost of debt. See Petition at 2 and 3.

Lakes Region will use the proceeds of the \$400,000 loan to pay its accounts payable and 2013 federal and state income tax liabilities. Petition at 2. Payment of the accounts payable will enable Lakes Region to realize negotiated write-offs and will help strengthen Lakes Region's financial situation. Staff supports the use of these proceeds but expressed its concern that the negotiated write-offs with vendors may involve rate case expenses Lakes Region is authorized to recover from customers. Staff Recommendation at 3. We will consider this issue at Lakes Region's next rate case and adjust rates to eliminate any over-recovery if necessary.

The third financing is a revolving line of credit. Lakes Region will use the proceeds for interim capital expenditures and working capital. Attachments to Fontaine Testimony at 1 (Letter from CoBank dated November 13, 2103). The interest rate will be determined by CoBank on a weekly basis. *Id.* For the week of November 13, 2013, that rate was 2.94%. *Id.* Access to capital is necessary to insure that a regulated utility can discharge its obligations and pay its suppliers. The financing is at a competitive rate, will help Lakes Region move away from a cash-on-delivery relationship with its suppliers, and will enhance its operating cash flow. For

the foregoing reasons, we find these uses of the proceeds of the three CoBank financings to be reasonable.

*Easton* also requires us to assess the terms of the financings and the effect of these financings on rates. The \$500,000 loan will enable Lakes Region to carry this debt at an interest rate lower than the TD Bank loans. The 15-year, fixed-rate term of this loan and the requirement of a security interest are reasonable. The loan will lower Lakes Region's overall cost of debt, and will therefore benefit customers. The \$400,000 loan will reduce payables by approximately \$112,000. This loan has a 5-year term and an interest rate not to exceed 4.50%. Petition at 2. This rate is lower than Lakes Region's other debt and will lower Lakes Region's overall cost of debt. The loan will also have a beneficial impact on Lakes Region's debt/equity ratio by making it less heavily weighted by equity. These benefits will have a positive effect on Lakes Region's overall cost of capital. The third loan, a line of credit, is offered on favorable terms and will allow Lakes Region to move away from a cash-on-delivery relationship with its suppliers. We find that the terms of the financings will have a beneficial impact on the components of Lakes Region's revenue requirement, which, in turn, will benefit customer rates. We find the terms to be reasonable. Having looked beyond the terms of the financings to the use of the proceeds and the terms of the loans, as required by *Easton*, we find that Lakes Region's financing is consistent with the public good. Accordingly, we approve the financings pursuant to RSA 369:1-4.

In conclusion, our approval is given on the condition that the final terms not be substantially different from those proposed in Lakes Region's petition. If such terms vary significantly, we will require Lakes Region to seek additional Commission approval. We will issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

**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 Lakes Region Water Company Inc.'s petition and for the purpose outlined herein, is hereby APPROVED; and it is

**FURTHER ORDERED**, that Lakes Region Water Company, Inc. is authorized, pursuant to RSA 369:2, to provide a security interest in its real and personal property to CoBank for purpose of undertaking the long-term debt contemplated in this order; and it is

**FURTHER ORDERED**, that Lakes Region Water Company, Inc. shall cause a summary 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 May 9, 2014, and to be documented by affidavit filed with this office on or before May 16, 2014; and it is

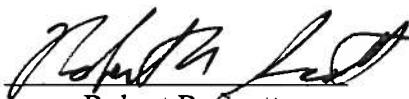
**FURTHER ORDERED**, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than May 13, 2014 for the Commission's consideration; and it is

**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than May 16, 2014; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective May 20, 2014, unless Lakes Region Water Company, Inc. fails to satisfy the publication 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 twenty-ninth day of April, 2014.

  
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Amy D. Ignatius  
Chairman

  
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Robert R. Scott  
Commissioner

  
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Martin P. Honigberg  
Commissioner

Attested by:

  
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Debra A. Howland  
Executive Director

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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**Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.**

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