

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DW 24-078

Petition of Lakes Region Water Co. Inc. for Approval of Long-Term Financing

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This Technical Statement is the New Hampshire Department of Energy’s (“DOE”) recommendation to the New Hampshire Public Utilities Commission (“Commission”) regarding Lakes Region Water Company, Inc.’s (“Lakes Region’s” or “the Company’s”) request to obtain long-term financing. This recommendation was informed by the Company’s petition, testimony, schedules, responses to discovery requests, and analysis of the source and purpose of the financing.

On May 31, 2024, Lakes Region filed a petition seeking approval to obtain long-term financing, pursuant to RSA 369:1. The Petition was accompanied by the testimony of Leah Valladares, Utility Manager at Lakes Region, as well as financial schedules and other supporting documentation. On June 4, 2024, the Commission issued a Procedural Order requesting that the DOE file a recommendation and an analysis of whether the financing should be considered routine. On June 5, the DOE submitted an assented-to proposed procedural schedule and, on June 6, the Commission approved that schedule. The approved schedule allowed for two rounds of discovery. Only one round of discovery was necessary, however, as the DOE determined that the Company’s responses to the first set of discovery requests adequately addressed all open questions and issues. Lakes Region’s responses are included with this recommendation as Attachment A.

Based on this review, the DOE recommends that the Commission grant Lakes Region’s request for approval of the financing.

Source of Financing

The Company is requesting the Commission’s approval to obtain a vehicle loan from Ford Motor Credit Company LLC (“Ford Credit”) in the amount of \$118,006. The proposed loan would have a term of five years, a fixed rate of interest of 7.74%, and be secured by the two vehicles purchased with the loan funds. The DOE believes that the proposed loan terms are appropriate.

Ms. Valladares indicated, and the Company’s schedules confirm that funds only from the proposed loan will be used to purchase the new vehicles. The term of the loan, five years, is

appropriate in the DOE's view, as it matches the five-year depreciable life of the vehicles to be acquired, which is also five years. When appropriate and possible, the DOE supports matching the term of a loan with the regulatory depreciable life of an acquired asset.¹

Ms. Valladares stated in her testimony that the Company chose Ford Credit because its loan proposal was more favorable and provided a lower interest rate than those of other lenders. Ford Credit's proposed interest rate of 7.74% was less than rates offered by other lenders, which were as follows: 8.00% from Ally Bank, 9.00% from Bank of New Hampshire ("BNH"), 13.34% from Meredith Village Savings Bank, and, subject to the Company's credit rating, a rate in the range of 8.84% to 10.00% from Northeast Credit Union. The DOE noted that the terms of repayment of the loans proposed by two lenders were nearly the same as Ford Credit's.² The DOE believes, based on Ms. Valladares' description of loan terms and rates offered by competing lenders in the Company's local community, that Lakes Region performed the appropriate amount of due diligence to obtain the best loan available to the Company.

Purpose of Financing

The purpose of the financing is to purchase two new pickup trucks ("New Trucks"), both 2024 Ford F-250 Super Duty 4x4s to replace two similar trucks ("Old Trucks") purchased in 2017. The New Trucks will be used by field staff to perform operation and maintenance tasks and service the Company's 19 water systems. Ms. Valladares stated that the Company is acquiring the New Trucks so that the Company can continue to provide safe and reliable service to its customers.

Ms. Valladares said the Old Trucks should be replaced due to their higher mileage and "continued" maintenance costs. She further stated that the miles traveled by one of the Old Trucks is 146,575 and the other is 215,376. Attachment DOE 1-3 indicates that the average distance from each of the 19 system pump stations to the main office is just over 21 miles.³ The DOE finds this to be considerable and is supportive of the Company's intent to maintain dependable service vehicles.

Subsequent to Lakes Region's original filing, the Company informed the DOE that one of its two Old Trucks had broken down. The Company's email containing that message is included as Attachment C.

Financial Impact of Financing on Lakes Region

With regard to the financial impact that the proposed financing will have on Lakes Region, the DOE concludes the following:

(a) The proposed financing will have no discernable impact on rates.

¹ An exception to matching the term of a loan to acquired assets depreciable life may occur when interest rates are high and the utility opts for a loan with a term shorter than the depreciable life of the acquired assets, with the expectation that it will refinance the loan when rates decline.

² An exception was that of BNH, which allowed only 90% financing (a loan for 90% of the purchase price), rather than the full amount that other lenders offered.

³ 21.3 miles = 405 miles / 19 systems

Lakes Region's response to DOE 1-1, included as Attachment A, shows that an increase to rates of 1.39% would be required to cover the additional revenue required for both the proposed investment in the New Trucks, \$118,006, and equipment to be added the trucks, \$30,154. The DOE believes that the equipment is outside the scope of the financing request, as Lakes Region stated it will be funded with the sales proceeds from the sale of the Old Trucks and internal funds, and not from the proposed Ford Credit loan.⁴ Based on the DOE's modified calculations of Lakes Region's schedules,⁵ the percentage increase to revenue required for only the proposed investment in the New Trucks would be 1.11%.⁶ The DOE's modified calculations are included as Attachment B.

(b) The proposed financing will have no deleterious effect on capitalization.

Funding for the New Trucks will be provided only by the \$118,006 Ford Credit loan. Based on the DOE's modified calculation referenced in Attachment B, the addition of that loan would increase the Company's debt-to-equity ratio by only 0.95%, from 31.40 debt: 68.60 equity to 32.71 debt to 67.29 equity.

(c) The funds from the proposed financing enable investments appropriate in the ordinary course of the Company's utility operations.

The proceeds from the loan will allow Lakes Region to invest in the two trucks, to be used to provide maintenance and service to its systems and customers.

Conclusion

Based on its analysis of the source and purpose of the financing, the DOE supports the proposed Ford Credit loan to fund the New Trucks. The source and purpose of the funding are reasonable. The DOE notes that, because the New Vehicles were delivered to the dealership sooner than expected, and because of the recent breakdown of one of the Old Trucks, Lakes Region has requested expedited treatment for its approval request. The DOE notes that the investment made pursuant to the proposed financing will be subject to future prudence review by the Commission after the investments are placed in service and prior to any approval for rate recovery under RSA 378:28.

The DOE respectfully recommends that the Commission find that the proposed financing is consistent with the public good, per RSA 369:1, and grant the Company's request for financing approval as soon as possible.

⁴ See Testimony of Leah Valladares, p3, para 5.

⁵ The DOE modified Lakes Region's calculation by eliminating the addition to capitalized assets of the equipment purchase, which the DOE contends is outside of the scope of Lakes Region's financing request. The DOE Modified Version of Lakes Region Response to DOE 1-1 (Equipment Purchase Excluded) is attached to this recommendation.

⁶ The investments made pursuant to the proposed financing are subject to future prudence review by the Commission after the investments are placed in service and prior to any approval for rate recovery under RSA 378:28.