

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DW 22-087

Lakes Region Water Co. Inc., Petition for Long Term Financing

Technical Statement of David N. Goyette, Utility Analyst, Water Group
New Hampshire Department of Energy, Division of Regulatory Support

March 28, 2023

Pursuant to RSA 12-P:2, IV, please accept this Technical Statement as the New Hampshire Department of Energy's (DOE) recommendation to the Commission in the above-referenced matter. The DOE has reviewed Lakes Region Water Company, Inc.'s (Lakes Region or Company) December 16, 2022, filing for approval of Financing from CoBank, ACB (CoBank). Included with this Technical Statement are Attachment A, Mr. Douglas W. Brogan, P.E. Report to DOE; and Attachment B, Selected Lakes Region Data Responses to DOE Sets 1-3.

Summary

Lakes Region has requested approval to borrow \$862,080 from CoBank to finance the cost of developing a new well for its Paradise Shores system. That system serves mostly seasonal customers in Moultonborough, NH. The New Hampshire Department of Environmental Services (DES) advised the Company that wells currently serving Paradise Shores do not adequately meet demand and recommended the Company seek additional sources of supply. As a result, Lakes Region is endeavoring to construct a new well source. This project involves well exploration and drilling, a pump station; and preparing road, electrical, and water main access to that station. The DOE's engineering consultant reviewed and was engaged in all discussions and inquiries regarding the Company's proposal, and determined that an additional well source is, indeed, needed; and that the project is a reasonable solution.

The proposed loan from CoBank would have a term of 20 years and a currently projected fixed interest rate of 7.04%.¹ CoBank indicated that rate is subject to change based on prevailing economic conditions at the time the loan is actually secured by the Company. The DOE believes the terms and conditions for the loan are reasonable.

In summary, based on the need for the project and reasonable terms for the loan, the DOE recommends that the Commission approve Lakes Region's request for the financing.

¹ Projected rate as of March 2, 2023. See Lakes Region response to DOE 3-1.

Detail

On December 16, 2022, Lakes Region filed a petition (Petition) for approval of an \$862,080 loan from CoBank. The Petition was supported by: (1) the testimonies of Company President Thomas A. Mason and consultant Stephen P. St. Cyr; (2) a sanitary survey report by the DES; (3) a proposal for new well siting by Lakes Region's consultant Nobis Engineering, Inc. (Nobis); (4) a draft term sheet from CoBank; and (5) pro forma schedules prepared by Mr. St. Cyr. The DOE's review of Lakes Region's filing consisted of (a) three rounds of data requests;² (b) a technical session with the Company on March 2, 2023; and (c) a report by DOE engineering consultant Douglas W. Brogan, P.E.³

Lakes Region operates 19 water systems and serves 1,824 customers.⁴ Most of its customers are seasonal, including those it serves within the Balmoral Development in Moultonborough, which consists of Lakes Region's Paradise Shores system of 415 general rate customers and a wholesale water customer, the Property Owners Association of Suissevale, Inc. (POASI), which has roughly 400 homes.

Mr. Mason testified that well production at Paradise Shores has been decreasing over the last several years. The DES reported that sustainable yields of wells serving Paradise Shores do not meet maximum demand and recommended the Company (1) start planning to determine the best method to maintain adequate year-round supply and (2) locate and develop an additional source of supply.⁵ During the summer of 2022, the Company had 66 truckloads of bulk water delivered to Paradise Shores; a total of 396,000 gallons at a cost of \$41,536.⁶

Lakes Region hired Nobis as its consultant to assist in the well siting phase of the project. Nobis proposed completing the work in four-phases: (1) assessing and identifying favorable areas for drilling; (2) conducting detailed exploration and well siting; (3) providing oversight of well drilling; and (4) performing pumping tests and obtaining permits.⁷ Mr. Mason indicated work has already begun and that construction of a 1,700' access road to four drill site areas and drilling of two test wells has been completed.⁸

Mr. Mason stated that the total estimated cost to complete the entire project would be \$862,080.⁹ He explained those costs are to develop a new source of supply, construct a pump and meter station, and connect the new source to the Paradise Shores system.¹⁰ The breakdown

² Selected Lakes Region responses to DOE Sets 1-3 are attached to this Technical Statement as Attachment B.

³ Mr. Brogan's memo is attached to this Technical Statement as Attachment A.

⁴ Lakes Region Water Co., Inc. 2021 NHPUC Annual Report, S-9 at p 89: <https://www.energy.nh.gov/sites/g/files/ehbemt551/files/inline-documents/sonh/2021-water-annual-report-lakes-region-water-company.pdf>.

⁵ According to the DES, maximum demand at Paradise Shores is 120,000 gallons per day and sustainable well yields total 115,200 GPD. See Petition, Mason Prefiled Testimony, Attachment A, p 2, para 6.

⁶ Lakes Region response to DOE 1-13.

⁷ Petition, Mason Prefiled Testimony, Attachment B, pp 6-7.

⁸ Petition, Mason Prefiled Testimony, p 3.

⁹ Petition, Mason Prefiled Testimony, p 3.

¹⁰ Petition, Mason Prefiled Testimony, p 2.

of the estimated \$862,080 outlay would be as follows:¹¹

1,700' Access Road to Wells	\$108,000
1,700' Electric Service	81,600
Pump Station, Meter, and Control Building	198,000
Four (4) Drilled Wells	240,000
Pumping Equipment	108,000
1,700' – 3' Water Main	<u>126,480</u>
Total	\$ 862,080

As such, Lakes Region is requesting approval of a loan from CoBank to finance the project. The loan would be in the amount of \$862,080 and have a fixed interest rate. On March 2, 2023, CoBank informed the Company that the then-current interest rate for the proposed loan would be 7.04%.¹² The estimated total financing costs to obtain the loan would be \$20,575. The financing costs would be amortized over 20 years, consistent with the term of the loan.¹³

Lakes Region sought financing only from CoBank, in part, because of its ongoing relationship with that bank.¹⁴ When asked if it had investigated other loan sources, the Company explained that, because CoBank has first-priority status regarding securitization, the Company would need CoBank's approval to obtain loans from other borrowers.¹⁵ The Company also stated that using its existing lender reduces the burden of financial and reporting requirements associated with having multiple lenders.¹⁶

Lakes Region acknowledged that it did not apply for low-interest financing through the Drinking Water State Revolving Fund (DWSRF) or the Drinking Water and Groundwater Trust Fund (DWGTF), both administered by the DES. The Company explained that due to the DWSRF requirement to comply with the Davis-Bacon Act, the resulting labor and wage requirements would increase project costs. Compliance would also require added administration, financial covenants, and security obligations. In addition, Lakes Region believes that because of the method used to prioritize awards through DWSRF and due to its mostly seasonal customer base, it was unlikely the Company would be selected for funding.¹⁷ Of note, however, Lakes Region indicated that it has made inquiries to the DES about Source Water Protection (SWP)

¹¹ Petition, St. Cyr Prefiled Testimony, SPS 5.

¹² Lakes Region response to DOE 3-1.

¹³ Petition, St. Cyr Prefiled Testimony, SPS 9.

¹⁴ This ongoing relationship with CoBank is confirmed by long-term debt information in the annual report, which shows CoBank is the exclusive creditor for all non-vehicle loans. *See* Lakes Region Water Co., Inc. 2021 NHPUC Annual Report, F-35 at p 51.

¹⁵ Lakes Region response to DOE 1-6. *See also* the Master Loan Agreement confirming CoBank is secured by a statutory first lien to all equity and present and future assets of the Company. Lakes Region response to DOE 1-5, Attachment B, Master Loan Agreement, Sect 4.

¹⁶ Lakes Region response to DOE 1-6.

¹⁷ Lakes Region response to DOE 1-7.

grant money under the DWGTF program and that it intends to explore whether it is the best option for the project.^{18 19}

Mr. St. Cyr testified that costs for the project would be recovered through increases in rates charged to both POASI, through an existing Special Contract, and to Lakes Region's general customers, via tariffed rates. He stated recovery would be apportioned at approximately 66% from POASI and 34% from general rate customers.²⁰ Mr. St. Cyr's financial schedules, as amended through discovery, indicate that an increase of 5.39% would be the projected increase relative to Lakes Region's general customer rates.²¹ With regard to POASI, Lakes Region reported it met with members of POASI's water board, on February 4, 2023, to advise the group of the project and discuss its required contribution. Regarding that contribution, Lakes Region stated it was, "working on providing POASI with options that would best work for all parties involved."²² Those options include recovery either (1) as a lump sum payment or (2) ratably over the term of the loan.

Mr. St. Cyr also provided schedules demonstrating the projected impact of the proposed financing on Lakes Region's capital structure. His schedules show that the financing would move the Company toward a more balanced debt-to-equity structure. Specifically, the Company would improve from a current 30/70 to projected 40/60 debt-to-equity structure.²³

DOE Recommendation

The DOE's recommendation was informed by: (1) the Petition, including the accompanying testimonies, DES sanitary survey, Nobis' proposal, draft CoBank term sheet, and financial schedules; (2) Lakes Region's responses to three sets of data requests; (3) a technical session with the Company, which included a representative from Nobis; and (4) Mr. Brogan's report with his opinion of the project.

Due to declining well production, average demand exceeding allowed well yields, and, recently, the necessity for trucked-in water, the DOE believes a sustainable solution to increase water supply is needed at the Paradise Shores system. The Company's filings, the DOE's data requests, and the Company's responses alluded to other options that could increase supply; including detection and repair of system leaks, water restrictions, and further trucked-in bulk purchases. However, these would only provide temporary relief. Development of a new well source appears to be the only viable, long-term solution to meet customer demand cost-effectively.

The terms and conditions of the proposed loan from CoBank appear reasonable. The term of the loan, 20 years, with a recently projected interest rate of 7.04%, appear competitive

¹⁸ DOE notes that, per the DES, grant awards are *limited to 50% of eligible* project costs. See Lakes Region response to DOE 2-1, Attachment A.

¹⁹ Lakes Region response to DOE 1-7 and DOE 2-1.

²⁰ Petition, St. Cyr Prefiled Testimony, p 4, and Lakes Region response to DOE 1-15(a).

²¹ Lakes Region response to DOE 2-2. Note that the response to DOE's request DOE 2-2 was inadvertently marked as DOE 2-1; in the Attachment B, DOE 2-2 is the second response marked as DOE 2-1.

²² Lakes Region response to DOE 2-3.

²³ Petition, St. Cyr Prefiled Testimony, SPS 3.

and appropriate. The Company's established relationship with CoBank, resulting in reduced administration and reporting by having just one lender; and CoBank's first-priority lien status in the event of default, collectively, appear to be favorable reasons for Lakes Region pursuing this loan through that institution. Regarding the SWP grant currently being contemplated by Lakes Region, the DOE encourages the Company to further pursue this possible funding source if feasible.

The DOE notes that from a regulatory standpoint, the all-debt financing should improve the Company's capital structure as it would move the debt-to-equity ratio to a more balanced position, from 30/70 to 60/40. As such, because the cost of debt has historically been less than that of equity, Lakes Region's proposed financing would effectively reduce its weighted average cost of capital to the benefit of ratepayers, should such historical trends continue.

Mr. Brogan provided his opinion regarding the project in a report to the DOE. Mr. Brogan indicated his review was limited to the engineering and operational aspects of the project based on the Company's filings and discovery responses, and his attendance at the March 2, 2023, technical session. In his report, Mr. Brogan highlighted the DES, in its sanitary survey, commending the Company for its efforts to increase supply. He acknowledged that: (1) well production has declined despite Lakes Region's efforts at hydrofracturing existing wells; (2) trucked-in water has been required; and (3) demand was highest in summer, especially during holiday weekends when consumption can "far outstrip available supply." Mr. Brogan also acknowledged Lakes Region's ongoing efforts to locate and repair leaks, its restrictions on summertime outdoor water use, and that the 325,000-gallon tank appears to provide ample storage for Paradise Shores. He then summarized the work Nobis has performed to date. Mr. Brogan concluded with his opinion that, "the company's request for financing for this project is reasonable."

It is the DOE's position that Paradise Shores requires additional supply and Lakes Region's proposal for development of a new well source is a reasonable solution; and is consistent with its duty to provide safe, adequate, and reliable water service to its customers under RSA 374:1. The improvements also appear to be investments made in the ordinary course of the Company's operations, again pursuant to the Company's duty under RSA 374:1. In the opinion of the DOE, including engineering consultant Douglas W. Brogan, P.E, the project and the terms of the loan are reasonable.

The DOE, therefore, supports the proposed CoBank loan to fund the project and recommends the Commission grant the Company's request for approval of the financing and find that the financing is consistent with the public good, per RSA 369:1²⁴.

²⁴ 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.

cc: Service List