



JUSTIN C. RICHARDSON

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June 9, 2023

*Via Electronic Service Only*  
Daniel C. Goldner, Chairman  
c/o [ClerksOffice@puc.nh.gov](mailto:ClerksOffice@puc.nh.gov)  
NH Public Utilities Commission  
21 South Fruit Street, Suite 10  
Concord, N.H. 03301-2429

Re: Lakes Region Water Co., Inc., Docket No. 22 – 87; Report on Financing Options  
Pursuant to Order No. 26,817.

Chairman Goldner:

I write on behalf of Lakes Region Water Co., Inc., (“Lakes Region”) in response to the Commission’s Order No. 26,817, revised May 15, 2023 (“Order”), which directed that: “by no later than June 9, 2023, Lakes Region shall report the conditions under which the Company may pay this loan back on an expedited basis or refinance the loan when more favorable terms, including lower interest rates, become available”.

In response to the Commission’s Order, Lakes Region contacted CoBank ACB (“CoBank”) and requested that it identify whether Lakes Region would be able to refinance or repay any long-term fixed rate loans on an expedited basis in the event that future interest rates were to decline. On May 15, 2023, CoBank advised that any early repayment or refinancing would be subject to a “Broken Funding Surcharge” under Section 2.5 of Lakes Region’s March 11, 2021 Credit Agreement with CoBank, which provides:

**2.5 Broken Funding Surcharge.** Notwithstanding the terms of any Promissory Note giving the Borrower the right to repay any loan prior to the date it would otherwise be due and payable, the Borrower agrees to provide three Business Days prior written notice for any prepayment of a fixed rate balance and to pay to Lender a broken funding surcharge in the amount set forth below in the event the Borrower: (a) repays any fixed rate balance prior to the last day of its fixed rate period (whether such payment is made voluntarily, as a result of an acceleration, or otherwise); (b) converts any fixed rate balance to another fixed rate or to a variable rate prior to the last day of the fixed rate period applicable to such

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balance; or (c) fails to borrow any fixed rate balance on the date scheduled therefor. The surcharge will be in an amount equal to the greater of (I) the sum of: (i) the present value of any funding losses imputed by Lender to have been incurred as a result of such payment, conversion or failure; plus (ii) a per annum yield of 0.50% of the amount repaid, converted or not borrowed for the period such amount was scheduled to have been outstanding at such fixed rate, or (2) \$300.00. Any surcharge will be determined and calculated in accordance with methodology established by Lender, a copy of which will be made available upon request. Notwithstanding the foregoing, in the event of a conflict between the provisions of this section and of the broken funding charge section of a forward fix agreement between Lender and the Borrower, the provisions of the forward fix agreement will control.

Lakes Region understands that the Broken Finance Surcharge is required to protect Bond Holders who invest in bonds based on today's rates and expected returns. Long term commercial loans are not generally prepayable without penalty unlike mortgage loans. As a result, Lakes Region's response to the Commission's request is that: "Lakes Region does not anticipate that it would refinance or repay any long-term fixed rate loans on an expedited basis, even if long term interest rates were to decline in the future. Any such refinancing or early repayment would be subject to Broken Finance Surcharges or terms and conditions which would make such refinancing or early repayment unfavorable."

However, mindful of the concerns underlying the Commission's Order No. 26,817, Lakes Region is evaluating options which may allow Lakes Region to reduce borrowing in the current market for long-term interest rates. These options include:

**1. Reductions in Borrowing.** Lakes Region is considering borrowing less than the full amount approved by the Commission in Order No. 26,817. Lakes Region could then draw the remaining approved amount, if and when interest rates were to decline in the future. This would mean that project costs in excess of the loan amount would be booked as equity. The advantage of this approach is that, if long-term fixed interest rates were to decline in the future, Lakes Region could borrow or draw the remainder of the project costs at a lower fixed interest rate, up to limit approved by the Commission. The disadvantages of this approach are that: (a) there is a risk that interest rates could increase in the future; and (b) costs of equity are higher than current interest rates.

Lakes Region understands that CoBank's current long-term fixed interest rate if all funds were drawn immediately is approximately 6.75% for a 20-year fixed loan, though this rate changes daily as market rates change. This rate is slightly less than that reported by the Department of Energy in its March 28, 2023 *Technical Statement* which reported that "[t]he proposed loan from CoBank would have a term of 20 years and a currently projected fixed interest rate of 7.04%." In addition, Lakes Region participates in CoBank's Patronage Program which, while not guaranteed, offsets in part the interest costs of CoBank loans. For example, in

2022, Lakes Region's Total Patronage benefits from CoBank were \$12,396.90, compared to its total interest expense of \$69,192.<sup>1</sup>

**2. Short Term Debt.** Lakes Region has also considered increasing its short-term debt with CoBank (currently \$50,000) to the maximum allowed by Rule Puc 608.05, *i.e.* up to: "10% of the utility's net fixed plant". Lakes Region's Annual Report for the Year Ending December 31, 2022 shows its "Net Utility Plant" was \$5,233,602.<sup>2</sup> Lakes Region could finance a portion of the project using short term debt and then secure long-term financing if and when interest rates dropped. However, there are several disadvantages to this approach. Lakes Region understands that short-term interest rates are approximately 7.4%, higher than current long-term interest rates. In addition, there is a risk that long-term interest rates could increase or remain the same during the limited term of any short-term debt. As a result, Lakes Region does not favor this approach at this time.

**3. Contributions in Aid of Construction.** Lakes Region has discussed a potential Contribution in Aid of Construction with its wholesale customer in Paradise Shores. Lakes Region provided its wholesale rate based on its 2022 Annual Report as provided by its approved wholesale rate agreement. This may lead to further discussions as to a potential customer contribution which would reduce the required return on investment and plant and related income tax impacts on rates. However, whether a customer contribution may be made and the amount thereof is unknown at this time.

Lakes Region is continuing to move forward with the Project as authorized by Order No. 26,817 and evaluating the above and other options. If the Commission, the Department, or, other interested parties have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Justin Richardson". The signature is fluid and cursive, with the first name "Justin" and last name "Richardson" clearly legible.

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Cc: Service List

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<sup>1</sup> Form F-2, Line 30. Interest expense includes both CoBank and non-CoBank loans. *See e.g.* Order No. 26,310.

<sup>2</sup> Form F-1 Balance Sheet, Line 5