

THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Petition of New England Power Company

Verified Petition to Increase Short Term Debt Limit

New England Power Company (“NEP” or the “Company”) hereby petitions the New Hampshire Public Utilities Commission (the “PUC”), pursuant to N.H. Code Admin. R. Puc 201.05, to waive the short term debt limit under Puc 307.05 and increase NEP’s short term debt limit to \$750 million in accordance with the federal limit. In support of its Petition, NEP states as follows:

1. NEP is a Massachusetts corporation with a principal office at 40 Sylvan Road, Waltham, Massachusetts. It is a “public utility” in New Hampshire as that term is defined in RSA 362:2, and is also regulated as a public utility by the Federal Energy Regulatory Commission (“FERC”). NEP is a wholly-owned subsidiary of National Grid USA, which is, in turn, a wholly-owned subsidiary of National Grid plc.

2. NEP’s primary business is the transmission of electricity at wholesale to electric utilities and municipalities in New England. It operates approximately 2,700 miles of transmission facilities in Massachusetts, Rhode Island, New Hampshire, and Vermont. At present, approximately 400 miles, or 15%, of these facilities are located in New Hampshire. Thus, the vast majority of NEP’s business and facilities are located outside the State. Though there are fewer NEP facilities in New Hampshire than there are in any other state in which NEP has facilities, New Hampshire is the only state in which NEP operates that regulates its issuance of short-term debt.

3. New Hampshire's statute regulating the issuance of short term notes by a public utility states:

No public utility engaged in business within this state shall issue or renew any notes, bonds, or other evidences of indebtedness payable less than 12 months after the date thereof, except as provided in this section, by rules adopted by the commission, or by specific order of the commission in an individual case.

RSA 369:7, I. Consistent with this statute, the PUC adopted Puc 307.05, pursuant to which "[n]o utility shall issue or renew any notes, bonds or other evidences of indebtedness payable less than 12 months after the date thereof if such short term debt exceeds 10% of the utility's net fixed plant without prior commission approval pursuant to Puc 201.05." Puc 201.05(a), in turn, states that the PUC shall waive the provisions of any of its rules if the waiver serves the public interest and will not disrupt the orderly and efficient resolution of matters before the PUC.¹

4. More than twenty years ago, the PUC authorized NEP to "issue and renew notes, bonds or other evidences of indebtedness payable in less than twelve (12) months after the date thereof, in an aggregate amount thereof outstanding at any time (not including any such indebtedness to be retired with the proceeds of any new borrowing) not in excess of \$375 million". Puc Order No. 20,952 at 1 (Sept. 8, 1993). The Order permits NEP to issue such short term debt up to \$375 million "from time to time," and imposes no renewal date or requirement. *Id.* Since 1993, NEP's short term debt limit as established by the PUC has remained at \$375 million.² By way of reference, according to the United States Bureau of Labor Statistics' CPI Inflation Calculator, \$375 million in 1993 dollars is equivalent to \$619.3 million in 2015.

¹ In determining the public interest, the PUC shall waive a rule if (1) compliance with the rule would be onerous or inapplicable given the circumstances of the affected person; or (2) the purpose of the rule would be satisfied by an alternative method proposed. Puc 201.05(b).

² In 1998, NEP's short term debt limit was temporarily increased to \$750 million for the purpose of increasing the company's ability to finance the buyout of purchased power contracts with non-utility generators for the repurchase of certain of its mortgage bonds prior to the divestiture of the company's non-nuclear generating assets. Puc Order No. 22,907 (April 28, 1998). NEP indicated its intention to return to the \$375 million short term borrowing authority granted by Order No. 20,592 in a letter to the PUC dated October 27, 1998.

5. As noted above, as an interstate transmission company, NEP is also regulated by FERC. In 2011, pursuant to 16 U.S.C. § 824c, NEP requested and FERC approved an increase in short-term borrowing authority from \$500 million to \$750 million.³ NEP subsequently sought and received renewal of this federal \$750 million short-term debt limit, receiving FERC authorization in December 2014 to issue up to \$750 million in short term debt for the two-year period beginning January 12, 2015 and ending January 11, 2017. *See Nat'l Grid USA*, 149 FERC ¶ 62213 at 3 (Dec. 23, 2014).

6. Securing FERC's approval of short-term borrowing requires descriptions of the purpose of borrowing and why that borrowing is in the public interest as well as a test that the proposed borrowing would not be detrimental to the applicant's financial integrity. Specifically, under 18 C.F.R. pt. 34, an application for FERC approval of short-term borrowing authority must include, *inter alia*, "the purpose for which the securities for which application is made are to be issued" and a showing that the issuance "[i]s for some lawful object, within the corporate purposes of the applicant and compatible with the public interest, is necessary or appropriate for or consistent with the proper performances by the applicant of service as a public utility and will not impair its ability to perform that service." In addition, FERC requires that a public utility demonstrate that the utility would maintain at least a 2.0 interest coverage ratio with a pro forma adjustment to historical financial results that reflects the interest expense associated with fully exploiting the requested short-term borrowing authority. In reviewing NEP's application, FERC further stressed the coverage ratio and determined that NEP could cover its \$750 million short-term debt limit even assuming a maximum interest rate of 5.1 percent, significantly higher than current short term rates.

³ 137 FERC ¶ 62,189.

7. Notwithstanding the fact that NEP's FERC-authorized short term debt limit is twice that of the short term debt limit established for NEP by the PUC, NEP has always deferred to and abided by the lower \$375 million limit. However, in recent years, NEP's short term borrowing has increased significantly, in large part due to the Company's spending on major capital projects, such as the New England East-West Solution (also referred to as "NEEWS") projects, all of which are located in Massachusetts and Rhode Island. The Company's need for short-term borrowing has increased such that the company anticipates that its need will exceed the \$375 million limit before the end of the 2015 calendar year due to currently projected working capital requirements. Its level of short-term debt as of this filing is \$332 million.

8. Despite the \$750 million FERC-authorized short term debt limit, NEP's adherence to the \$375 million limit set by the PUC in 1993, will soon constrain the company's ability to appropriately finance its operations and investments across its multiple states of operation. As noted above, approximately 85% of the facilities that NEP operates are outside of New Hampshire. Increasing NEP's short term debt borrowing limit to \$750 million will allow NEP to realize the additional potential afforded by the current FERC-authorized limit—a limit that the company has demonstrated to FERC is in the public interest and protective of the company's financial integrity.

9. Accordingly, NEP requests that its short term borrowing authority be increased to a maximum level of \$750 million in accordance with the federal limit. Pursuant to Puc 201.05, a waiver of the short term debt limit set forth in Puc 307.05 serves the public interest and will not disrupt the orderly and efficient resolution of matters before the PUC. Compliance with the current limit of \$375 million would be contrary to the public interest and onerous to NEP, as it

would require NEP to fund its operations and investments with higher-cost capital that would increase costs for NEP's customers and limit its flexibility to provide optimal funding.

10. Proceeds from short term debt issuances for which authorization is requested will be used by NEP to fund working capital and for purposes, including but not limited to: the construction of new facilities or the upgrading of existing facilities; the improvement and maintenance of service; the discharge or lawful refunding of financial obligations; the reimbursement of monies actually expended for these purposes; and other lawful purposes. In addition to this petition for increased short-term borrowing authority from the PUC, NEP continues to evaluate long-term borrowing options. However, given the timing required for debt issuances and the regulatory approvals required from multiple states, long-term debt does not present a near-term option for NEP in light of its ongoing need for financing. Notwithstanding the potential for future long-term debt issuance, alignment of the PUC's short-term debt limit with that authorized for NEP by FERC would be in the best interest of the company and its customers in and outside of New Hampshire.

11. NEP expects to issue short term debt in the form of both external and internal financings. With respect to external financings, NEP seeks authority to issue and sell short term debt in the form of secured and unsecured commercial paper, notes issued to banks and other lenders, and other forms of secured and unsecured short term third-party debt. It also seeks authority to issue short term debt in the form of internal financings, including notes, journal entries, or other evidences of indebtedness in exchange for cash or other financing received from affiliates. Such internal financings may take one of three forms: borrowings from the

appropriate money pool;⁴ borrowings from certain associated companies; or open account advances. NEP may also receive capital contributions from upstream direct or indirect parent companies.

12. For the reasons set forth herein, NEP requests that the PUC waive the short term debt limit under Puc 307.05 and increase NEP's short term debt limit to \$750 million to be consistent with the FERC-authorized limit.

WHEREFORE, New England Power Company respectfully requests that the PUC:

- A. Waive the provisions of Puc 307.05;
- B. Authorize NEP to increase its short term debt limit from \$375 million to \$750 million; and
- C. Grant such other and further relief as may be just and equitable.

Date: September 28 2015

Respectfully submitted,

NEW ENGLAND POWER COMPANY

By its Attorneys,

McLANE MIDDLETON,
PROFESSIONAL ASSOCIATION

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⁴ NEP, New England Hydro-Transmission Corporation, and New England Electric Transmission entered into a Regulated Money Pool Agreement with certain affiliates of National Grid USA effective November 1, 2012. A copy of this Agreement was submitted to the PUC on March 27, 2013 in Docket DA 13-092.

Verification

I, Christopher McConnachie, individually, and on behalf of New England Power Company, do state under oath that I have read the Verified Petition and can attest that the statements made in this Verified Petition are true based upon my personal knowledge.

Signed on this 23rd day of September, 2015.

LEON CHANG
NOTARY PUBLIC-STATE OF NEW YORK
No. 01CH6275929
Qualified In Kings County
My Commission Expires February 04, 2017



Christopher McConnachie
Vice President and Treasurer

Before me personally appeared Christopher McConnachie, and swore that the foregoing information was true and accurate to the best of his/her knowledge and belief.



Notary Public/Justice of the Peace
My Commission Expires: