

THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
PREPARED TESTIMONY OF KATRINA T. NIEHAUS
ISSUANCE OF RATE REDUCTION BONDS PURSUANT TO 2015 RESTRUCTURING
AND RATE STABILIZATION AGREEMENT

Docket No. DE 17-096

1 **Q. Please state your name and company affiliation.**

2 A. My name is Katrina T. Niehaus and I am employed by Goldman, Sachs & Co.
3 (“Goldman”) located at 200 West Street. New York. New York.

4 **Q. In what capacity are you employed and what are your responsibilities?**

5 A. I am currently a Managing Director, Head of the Corporate Asset Backed Securities
6 (ABS) Finance Group at Goldman.

7 **Q. Briefly describe the role of Goldman in the proposed transaction.**

8 A. Goldman was retained by Public Service Company of New Hampshire (“PSNH”) to be
9 its lead underwriter for the proposed transaction. Goldman, as lead underwriter, has
10 agreed to assist PSNH in, among other things, procuring a finance order (“Finance
11 Order”) to permit securitization and development of the bond structure.

12 **Q. Please give your educational background, professional qualifications, and**
13 **experience.**

14 A. I received a Bachelor of Science in Economics degree from the Wharton School at the
15 University of Pennsylvania. Prior to joining Goldman in 2005, I was employed by
16 Lehman Brothers. I was at Lehman Brothers from 2004-2005 as an analyst.

1 During my time at Goldman, I have assisted a number of utilities / States through the
2 securitization process as an advisor or underwriter including: Jersey Central Power &
3 Light, AEP Texas Central, Entergy Texas, CenterPoint Energy, FirstEnergy, Consumers
4 Energy, The Long Island Department of Power, and The State of Hawaii. Currently, I
5 oversee a group that has the responsibility for the origination and structuring of
6 securitizations backed by a broad range of assets including renewable loans / leases /
7 power purchase agreements, intellectual property, and small business loans.

8 **Q. What is the purpose of your testimony?**

9 A. My testimony will: (i) provide an overview of the proposed securitization transaction and
10 market; (ii) discuss the key structural elements of PSNH's proposed rate reduction bond
11 offering; and (iii) discuss the primary rating agency criteria for rate reduction bonds to
12 obtain triple-A ratings.

13 **OVERVIEW OF PROPOSED SECURITIZATION TRANSACTION AND MARKET**

14 **Q. What is Securitization?**

15 A. Securitization is a financing technique in which certain assets—typically financial assets
16 such as loans, leases, or receivables—are legally isolated within a special purpose entity
17 (“SPE”) and investors purchase securities that represent either debt or equity interests in
18 the SPE. These securities are generally referred to as Asset Backed Securities (“ABS”).
19 Securitization has become widely accepted as an efficient way for companies to finance a
20 broad range of assets. The proposed transaction is similar to prior securitizations that
21 have been completed on behalf of PSNH and other utilities, in that the SPE will issue
22 securities backed primarily by a statutory and regulatory right to receive a charge

1 (referred to herein generically as a “RRB Charge”) paid by customers in a utility’s
2 service territory. Securitizations are generally non-recourse to and bankruptcy-remote
3 from any operating company (here, PSNH). The bonds are typically self-amortizing
4 through payments of principal over time, and there is customarily a broad and diverse
5 pool of underlying obligors (here, retail electric customers) that will make payments to
6 service the bonds. In the case of rate reduction bonds, collections of the securitized
7 charge provide the cash from which interest and principal on the bonds are paid over time.

8 **Q. Have other utilities issued rate reduction bonds?**

9 A. Since 1995, over \$54.4 billion of rate reduction bonds have been issued successfully by
10 or on behalf of electric utilities in various states as shown below in Exhibit KN-1.

11 **Q. Who is a typical investor in securitizations?**

12 A. The most frequent investors in securitizations are banks, pension funds, insurance
13 companies, and money managers (i.e. institutional investors). Securitizations tend to be
14 large, normally in the range of \$100 million to \$4 billion. The large transaction size
15 economizes on the fixed costs of setting up a securitization and provides greater liquidity
16 for investors seeking to trade in the secondary market, which can lead to better pricing in
17 the primary (i.e. new issue) market.

18 **Q. How are rate reduction bonds priced?**

19 A. The exact interest rate (or coupon) of rate reduction bonds is a function of the market
20 conditions at the time the bonds are sold and is influenced not only by general market
21 conditions but by such factors as the number and quality of competitive bond offerings
22 coming to market at the same time. The interest rates (or coupons) on the rate reduction

1 bonds are set at a level agreed to by the sponsor and the underwriters shortly before the
2 bonds are issued. The objective in setting the interest rates on the rate reduction bonds is
3 to set them at a level sufficient to generate enough demand to allow all bonds to be sold,
4 without setting the interest rate at a level higher than necessary to generate sufficient
5 demand. The ratings of the rate reduction bonds also generally impact the rate at which
6 investors are willing to purchase the securities.

7 **Q. How will the bonds be structured in this transaction?**

8 A. It is expected that the rate reduction bonds will be issued in multiple tranches. While the
9 final structure will depend upon market conditions at the time of offering, we currently
10 estimate that the proposed offering have three tranches, as was the case in PSNH's 2001
11 stranded cost securitization, with average lives that range from 2.4 to 12.0 years
12 (approximately). The legal final maturity of the latest maturing tranche of the bonds is
13 not expected to exceed 17 years. The likely scheduled final payment date of the bonds
14 will be approximately 15 years from the date of issuance. Figure KN-3 shows an
15 example of the tranches Goldman would recommend under current market conditions by
16 first scheduled principal payment date, scheduled final payment date, legal final maturity,
17 initial principal amount, average life, and estimated coupon for the bond structure that I
18 will describe shortly. I should note that Figure KN-3 is only an example and that the
19 actual structure could differ depending on market conditions at the time of issuance.

20 **Q. How was the tranching determined?**

21 A. The proposed bond structure has overall amortization schedules and tranching that reflect
22 efforts to balance the competing goals of minimizing the amortization window of each
23 tranche (to make the tranche more desirable for investors), maximizing the tranche size

1 (to promote liquidity in the secondary market), and targeting average lives that are salable
2 at the tightest spreads (i.e. lowest premium over the swap curve) in the current market.

3 **Q. Do you recommend the bonds be offered in a public transaction registered with the**
4 **SEC or a private placement?**

5 A. I recommend in this case pursuing an offering registered with the U.S. Securities and
6 Exchange Commission (“SEC”), generally referred to as public offerings. While a public
7 offering may have higher initial transaction costs than a Rule 144A qualified institutional
8 offering, in general, public offerings are considered to be more liquid and therefore may
9 be more attractive to investors, which would likely lead to lower overall costs for
10 customers.

11 **Q. Will the rate reduction bonds pay fixed or floating rates?**

12 A. All New Hampshire rate reduction bonds, and nearly all rate reduction bonds issued in
13 other states, have been fixed-rate bonds. Fixed rates facilitate evaluation of the likely
14 costs and benefits in advance and the maintenance of roughly equal securitized charges
15 over time (subject to variances in items such as actual load or collections history from
16 forecast). Although it is possible to issue floating-rate bonds if the floating interest rate is
17 then converted to a fixed rate through use of an interest rate swap or hedge between an
18 SPE and a highly-rated swap counterparty, in today’s market, floating rate bonds, swaps,
19 and hedges are expected to create additional documentation costs and introduce
20 additional risks. Our analysis assumes that only fixed-rate bonds will be issued.

1 **Q. Please describe and provide an estimate of the up-front qualified costs of original**
2 **issue discount.**

3 A. Original issue discount (“OID”) is not really a “cost” similar to the other up-front costs
4 discussed by Emilie O’Neil in her testimony. Instead, it is the difference between the
5 total par amount of the bonds issued and the actual price paid by investors. There is a
6 mathematical relationship, as captured by the yield of a bond, between the amount of
7 OID in a particular transaction and the interest rate (or coupon) paid on the bonds sold.
8 The lower the interest rate, the higher the OID will be for a given yield (all else equal).
9 For planning purposes, it is assumed that the rate reduction bonds will be issued without
10 OID. However, as a practical matter, it is likely that some level of OID will be needed to
11 provide yields that match the exact market conditions at issuance. In fact, a certain
12 amount of OID is typical of rate reduction bonds and some other asset backed securities
13 generally. The amount of OID is generally less than 0.5%. For example, the OID for the
14 three tranches of bonds issued PSNH’s 2001 bond offering were 0.02021%, 0.06422%
15 and 0.03884%. These types of discounts arise because (a) the swap curve is typically
16 quoted to four decimal places while bond coupons are typically stated to two decimal
17 places and (b) many initial offerings settle without accrued interest on a mid-month date,
18 which results in an “odd first period.” Under these circumstances, pricing at exactly 100%
19 is not practicable. Many investors tend to prefer a lower coupon with a discount over a
20 higher coupon with a premium, so the normal convention is to round the coupon down (to
21 two decimal places) at pricing to produce a slight discount.

22 For all practical purposes, OID is an element of interest cost. The OID will depend on
23 market conditions at the time and the “odd first period” described above. Since the OID

1 will be fully reflected in the issuance advice letter, and there is no reason to predict, nor
2 any basis for predicting, the exact amount of OID that may be associated with this
3 transaction. Any estimate would be arbitrary.

4 **Q. How might market conditions at the time of the offering impact the rate reduction**
5 **bonds?**

6 A. Market conditions for fixed income securities overall can impact the execution of specific
7 securities, including rate reduction bonds, independent of investors' fundamental views
8 of those specific securities. For example, if there is generally growing risk aversion
9 among investors, it may be more expensive to an issuer to offer securities of a longer
10 duration, all else being equal.

11 **KEY ELEMENTS OF THE RRB STRUCTURE**

12 **Q. What key elements or characteristics of rate reduction bonds are considered**
13 **important in establishing the credit rating of rate reduction bonds?**

14 A. Rating agencies generally consider several key elements including: (1) bankruptcy
15 remoteness from the utility; (2) predictability and nonbypassability of the legislatively
16 mandated "RRB Charge"; (3) standards governing any future third party biller (a
17 "TPB")¹; (4) credit enhancement; and (5) the state pledge and other statutory safeguards.

18 **Q. Please describe the structure of the proposed securitization transaction.**

19 A. A diagram of the structure of the proposed securitization transaction is provided in Figure
20 KN-2. This structure is substantially similar to that employed in the prior PSNH

¹ To the extent New Hampshire institutes the use of third-party billing, the rating agencies are likely to focus on the impact of each third-party billing entities credit and their involvement on the flow of collections. Historically, the rating agencies have required the public utility commission to indicate they will consider the rating of the securitization to the extent a change in billing structure is made in the future.

1 securitizations. The proposed transaction will involve the creation by PSNH of one or
2 more wholly-owned SPEs, which would be incorporated as Delaware limited-liability
3 companies with PSNH as the sole member. The SPE(s) will serve as the issuer(s) of the
4 rate reduction bonds (“Issuer”). PSNH, pursuant to authorization granted it by the State
5 of New Hampshire Public Utilities Commission (“Commission”) in a Finance Order, will
6 create and sell certain “property” (namely, the right to impose, bill, and receive RRB
7 Charges) to Issuer. The Issuer will finance the purchase of the RRB Property by selling
8 rate reduction bonds, thereby acquiring all of the right, title, and interest of PSNH to
9 collect RRB Charges.

10 **Q. What is the reason for using a newly formed SPE rather than issuing the rate**
11 **reduction bonds directly from PSNH?**

12 A. The credit ratings of existing companies, like PSNH, are affected by factors related to
13 their historical and ongoing business. One of the aspects of securitization is that it allows
14 a particularly high quality stream of revenue to be isolated, and bonds secured by that
15 stream to be sold in a manner that insulates the investor from credit risks of the existing
16 company. As a result, securities issued by SPEs, such as the Issuer, often have higher
17 credit ratings than the debt of the company that sponsored the transaction. To obtain and
18 maintain these higher credit ratings, the SPE is generally made the beneficiary of one or
19 more forms of credit enhancement, which may include equity contributed by the sponsor,
20 subordinated interests retained by the sponsor, financial guarantees or letters of credit,
21 and in the context of the proposed rate reduction bond transaction, a true-up of
22 securitized charges and other statutory protections. In the case of rate reduction bonds,
23 the statutory provisions are designed to permit the bonds to be issued with triple-A

1 ratings using features generally consistent with prior PSNH legislation enabling
2 securitization of this type.

3 **Q. Is the SPE Issuer concept consistent with other PSNH securitizations?**

4 A. Yes. In the two prior PSNH securitizations, an SPE was used to issue the bonds.

5 **Q How does the sale of the RRB Property to an SPE contribute to the bankruptcy-**
6 **remoteness of such RRB Property?**

7 A. My understanding is that when the transfer of the RRB Property to an SPE constitutes a
8 legal true sale and absolute transfer for commercial law purposes, the RRB Property
9 owned by the SPE is no longer property of the utility and, therefore, would not be subject
10 to the claims of the utility's creditors if the utility were to become the subject of a
11 bankruptcy proceeding. Although PSNH, as seller of the RRB Property, will initially act
12 as servicer (the "Servicer") for an SPE by collecting RRB Charges, I believe that the SPE
13 will hold legal title to the collections received in connection with RRB Charges and the
14 funds will not be part of PSNH's revenues or assets for legal purposes.

15 **Q. How does the independence of the SPE from the utility influence the bankruptcy-**
16 **remoteness of the RRB Property?**

17 A. Counsel has indicated that in order to preserve the bankruptcy-remote status of the SPE
18 and the RRB Property once it is sold to the SPE, the utility should maintain an arms'
19 length relationship with the SPE and not act in a manner inconsistent with the ownership
20 of the RRB Property by the SPE. My understanding is that the utility cannot have a claim
21 on the RRB Charges.

1 **Q. What are the structural elements of the RRB Transaction that support the status of**
2 **the SPE as a separately organized legal entity?**

3 A. The structural elements that the opining law firm typically requires to support such
4 separate existence typically include, without limitation, requirements that the SPE be
5 adequately capitalized, that the utility, as Servicer, be adequately compensated on an
6 arms' length basis for the functions it performs for the SPE in billing, collecting and
7 remitting the RRB Charges on behalf of the SPE, that the utility not be liable for the
8 SPE's debts and that the SPE not be liable for the utility's debts, that the utility and the
9 SPE take certain steps to ensure that creditors are not misled as to their separate existence,
10 such as disclosure in the utility's financial statements of such separate existence, that
11 certain steps have been taken to avoid commingling of funds, and that separate books and
12 records are maintained for each of the SPE and the utility. I have been advised that these
13 structural protections are important to avoid the potential for "substantive consolidation"
14 in a bankruptcy proceeding, where the assets and liabilities of two or more affiliated
15 entities (such as the utility and its affiliated SPE) are pooled, resulting in claims of third-
16 party creditors against any of those entities being treated as claims against the common
17 pool of assets created by consolidation.

18 **Q. If the utility wholly owns the SPE, how will the SPE be operated independently from**
19 **the utility?**

20 A. Issuer's counsel and the rating agencies typically require that the organizational
21 documents of the SPE impose restrictions upon its activities and the ability of the utility
22 to take actions as the holder of the equity interest therein. For example, in the proposed
23 RRB Transaction, the SPE will be formed for the limited purpose of acquiring the RRB

1 Property and issuing the bonds. The SPE will be managed by a board of managers,
2 including at least one independent manager. Without the consent of this independent
3 manager, such SPE will be unable (a) to amend provisions of fundamental organizational
4 documents which ensure the bankruptcy-remoteness of the SPE or (b) to institute or to
5 consent to the institution of bankruptcy or insolvency proceedings against it, or (c) to
6 dissolve, liquidate or wind up the SPE. Other provisions may also be included to support
7 the bankruptcy-remote character of an SPE as required by the rating agencies.

8 **Q. What policies have been included in other rate reduction bond transactions to**
9 **ensure that an SPE continues to receive revenues in the event of a default in**
10 **payment by a Servicer?**

11 A. Pursuant to RSA 369-B:7, VI and VIII, and consistent with the prior PSNH rate reduction
12 bond transactions, in the event of a default by a Servicer in remittance of RRB Charges,
13 the Commission will, upon application by the pledgees or transferees of the RRB
14 Property, order the sequestration and payment to or for the benefit of the pledgees or
15 transferees of the revenues arising with respect to the RRB Property.

16 **Q. Will the utility be permitted to voluntarily resign as Servicer?**

17 A. It is expected that the servicing agreement will prohibit PSNH, as the initial Servicer,
18 from resigning as Servicer except upon either (i) a determination that the performance by
19 it of such duties is no longer permissible under applicable law or (ii) the prior approval of
20 the Commission and confirmation (or deemed confirmation) by the applicable rating
21 agencies that such resignation will not result in a suspension, reduction or withdrawal of
22 the then current credit ratings for the RRBs. Such resignation will not be effective until a
23 successor Servicer has assumed the initial Servicer's obligations in order to continue

1 servicing the RRB Property without interruption. The Servicer may also be terminated
2 from its responsibilities under certain instances upon a majority vote of holders of the
3 bonds, such as the failure to remit collections within a specified period of time. Any
4 merger or consolidation of the Servicer with another entity would require the merged
5 entity to assume the Servicer's responsibility under the servicing agreement. The terms of
6 the servicing agreement are critical to the rating agency analysis of the proposed
7 transaction and the ability to achieve the highest credit ratings.

8 **Q. What are the eligibility criteria for a third-party successor servicer?**

9 A. Selection of a third-party successor servicer is customarily made by the indenture trustee,
10 either at its own discretion or as it may be directed by holders of a majority of the
11 outstanding principal balance of the related series, subject to rating agency approval.
12 Typically, indenture trustees and rating agencies are primarily concerned with
13 performance-related criteria, and secondarily with financial strength. A third-party
14 successor servicer must be able to perform the calculation, billing, collection, filing, and
15 other duties that the servicer is required to provide under the servicing agreement, must
16 enter into a servicing agreement substantially similar to the servicing agreement with the
17 servicer being replaced, and must agree not to resign. Appointment of the successor
18 servicer must also not cause the rating agencies to reduce or withdraw the current ratings
19 of any class of rate reduction bonds for which the replacement would act as servicer.

20 **Q. Will an indenture trustee be engaged in this securitization?**

21 A. Yes. Securitizations typically involve one or more indenture trustees who act on behalf
22 of investors pursuant to one or more indentures. The assets of the SPE are typically
23 pledged to the indenture trustee on behalf of the bondholders, who perfects a first-priority

1 security interest in them. In the event the sponsor or servicer defaults on its servicing
2 obligations, the indenture trustee is normally empowered to contract with another party to
3 perform those obligations.

4 **Q. What is the role of the indenture trustee?**

5 A. The indenture trustee receives and processes RRB Charges from the Servicer, calculates
6 the amounts due to bondholders on each payment date, allocates collections in
7 accordance with the priority of payments for the transaction, invests amounts on deposit
8 in each subaccount in eligible investments, and provides periodic reports that detail
9 account activity and balances to various parties. The duties, rights, and obligations of the
10 indenture trustee will be more fully described in the indenture.

11 **Q. What is the role of the administrator?**

12 A. The SPE will not have any employees, so PSNH, as administrator, will perform certain
13 functions for the SPE. These functions will include, among others, maintaining the
14 general accounting records, preparation of periodic and annual reports, arranging for
15 annual audits of the SPE's financial statements, as may be necessary, preparing all
16 required external filings, preparing any required income or other tax returns, and related
17 support. The administration fee is meant to cover expenses associated with these
18 functions.

19 **Q. Please describe the different kinds of accounts that will be created for the RRB**
20 **Transaction.**

21 A. The indenture will provide for the creation of a collection account for each series of rate
22 reduction bonds and for the division of the collection account into three subaccounts: (1)

1 General Subaccount; (2) Capital Subaccount²; and (3) Excess Funds Subaccount³. This
2 is similar to the structure of other recent rate reduction bonds. Given changes to rating
3 agency criteria and changes to tax requirements since the prior PSNH securitizations,
4 Goldman does not expect that an additional overcollateralization subaccount will be
5 required for this transaction. That said, Goldman would recommend providing the
6 flexibility to create other subaccounts, if, at the time the rate reduction bonds are being
7 issued, the expected benefits of additional subaccounts credit enhancement outweigh the
8 expected costs.

9 **Q. Please describe the General Subaccount.**

10 A. All collections of RRB Charges by the Servicer will be remitted into the general
11 subaccount for distribution to bondholders and other parties in accordance with a priority
12 of payments (or “waterfall”) as described below. To achieve triple-A ratings, it is
13 generally necessary for, among other things, the documents to include a detailed priority
14 of payments for the application of collections. The priority of payments in the indenture
15 is expected to be based on that utilized in PSNH’s prior securitization, but updated to
16 account for changes to rating agency requirements.

17 **Q. Please describe the Capital Subaccount.**

18 A. The Capital Subaccount serves as a buffer against undercollection which might otherwise
19 cause a delay in the payment of scheduled principal, interest, or operating expenses. The
20 Capital Subaccount will be funded by PSNH on or prior to the closing of the transaction
21 through a capital contribution in an amount to equal to at least 0.5% of the initial

² The Capital Subaccount is referred to as the Reserve Account in 2015 Settlement Agreement

³ The Excess Funds Subaccount is referred to as the Overcollection Account in 2015 Settlement Agreement

1 principal balance of the rate reduction bonds issued. As noted previously, this level of
2 capital contribution is generally necessary to achieve triple-A ratings (and to support the
3 necessary tax treatment).

4 The Capital Subaccount can be used to make interest and principal payments (or to pay
5 other operating costs) if RRB Charges are inadequate to do so. Any withdrawals from
6 the Capital Subaccount to pay interest or principal due to bondholders will be repaid with
7 future remittances of RRB Charges and incorporated into the true-up mechanism.

8 Because this subaccount is funded by PSNH (as the sole member of the Issuer), upon the
9 repayment of the Bonds all amounts in the Capital Subaccount should be returned to the
10 shareholders of PSNH.

11 **Q. Please describe the Excess Funds Subaccount.**

12 A. The Excess Funds Subaccount will receive deposits of any amounts remaining after
13 payments of interest, scheduled principal, expenses, and required deposits into the Capital
14 Subaccount. Amounts on deposit in the Excess Funds Subaccount may be drawn to pay
15 interest, principal, and certain expenses if necessary. Any balance in the Excess Funds
16 Subaccount after making all required payments will be applied to RRB Charges and
17 incorporated into the true-up mechanism.

18 Because the Excess Funds Subaccount is funded by RRB Charges, any amounts in the
19 Excess Funds Subaccount at the time the rate reductions bonds have been paid off, other
20 than amounts needed to replenish the Capital Subaccount, will be paid by the SPE to
21 PSNH to be returned to customers.

1 **Q. Is an Overcollateralization Subaccount necessary.**

2 A. Although an overcollateralization subaccount was utilized in PSNH's 2001 and 2002
3 transactions, it is not anticipated, and has not been part of many other recent rate
4 reduction bond transactions. Prior to August 2005, an overcollateralization subaccount
5 was required for similar utility rate reduction bond transactions due to tax considerations,
6 but is no longer required due to IRS Revenue Procedure 2005-62 ("Revenue Procedure").
7 Following the issuance of the Revenue Procedure, the need for such a subaccount is
8 determined through the rating agency process. This subaccount should be considered and
9 funded in a proposed structure only if required by the rating agencies to achieve the
10 highest ratings. In the vast majority of utility rate reduction bond transactions since 2006,
11 however, the rating agencies have not required funding of such a subaccount in order to
12 achieve "triple A" or equivalent ratings. While the flexibility to include and fund such a
13 subaccount should be considered, based upon published rating agency reports, I do not
14 expect that funding such a subaccount will be necessary for this transaction.

15 **Q. Please describe the flexibility to create other subaccounts that PSNH recommends.**

16 A. Goldman would also recommend providing the flexibility to create other subaccounts
17 provided that the subaccounts provide expected benefits greater than their tangible and
18 intangible costs or are required in order to achieve the triple-A rating from one or more
19 rating agency.

1 **Q. How will the amounts in these subaccounts be invested?**

2 A. Amounts on deposit in each of the subaccounts will be invested by the indenture trustee
3 in “eligible investments.” The indenture is expected to define eligible investments in a
4 similar manner as the indentures in PSNH’s prior securitizations and will include U.S.
5 Government securities, certain bank deposits, banker’s acceptances, and security
6 repurchase obligations from institutions with long-term ratings of at least Aa3/AA/AA
7 (from Moody’s, Standard and Poor’s, and Fitch, respectively), or short-term ratings of at
8 least P-1/A-1+/F-1+, respectively, the commercial paper of similarly-rated commercial or
9 financial entities, and investments in Aaa/AAA/AAA-rated money market funds.

10 **PRIMARY RATING AGENCY CRITERIA**

11 **Q. What are the principal criteria for achieving triple-A ratings for the rate reduction**
12 **bonds?**

13 A. In my experience and consistent with the prior PSNH securitizations, the proposed
14 transaction will be structured in a manner intended to achieve the highest rating by each
15 of the three major rating agencies: Aaa by Moody’s, AAA by Standard and Poor’s, and
16 AAA by Fitch. To achieve these ratings, the transaction should exhibit certain
17 characteristics:

18 1. There must be a “true sale” transfer of the RRB Property from PSNH to the Issuer
19 with a first-priority perfected security interest in the transferred RRB Property granted in
20 favor of the indenture trustee.

21 2. The Issuer must be structured to ensure that it will be bankruptcy-remote from
22 PSNH.

1 3. The Finance Order authorizing the issuance must include statements recognizing
2 the irrevocability of the RRB Charges, describing and authorizing imposition, collection,
3 and nonbypassability thereof, and approving the implementation of a satisfactory true-up
4 mechanism to adjust RRB Charges. The statute also includes a state pledge that neither
5 the state, nor any of its agencies, including the Commission, shall limit, alter, amend, or
6 impair the RRB Charge, the RRB Property, the Finance Order, and all rights thereunder.

7 4. The true-up mechanism must be mandatory and provide for at least an annual
8 adjustment, with a preference for a midterm adjustment / review. These adjustments are
9 needed to ensure sufficient collections to adhere to the scheduled amortization schedule.

10 5. The transaction should include credit enhancement in the form of the Capital and
11 Excess Funds Subaccounts. It is expected that the Capital Subaccount will be required in
12 amounts no less than 0.5% of the original principal amount of rate reduction bonds.

13 6. The rate reduction bonds must have scheduled final payment dates that are
14 sufficiently shorter than the legal final maturity date of the bonds to ensure sufficient
15 funds will be collected under a “worst case” scenario to pay the interest and principal
16 regardless of the economic, weather, or other conditions that exist prior to the legal final
17 maturity date of the bonds.

18 7. There should be cross-collateralization among customer rate classes allowing
19 collection shortfalls to be allocated among classes through the true-up mechanism.

20 8. The rating agencies will need to be satisfied that the Servicer is qualified to
21 perform its billing, collection, and related responsibilities and that it is of sufficient
22 financial substance and stability that it can be expected to perform such services for the
23 life of the rate reduction bonds. The rating agencies will also require the documentation

1 to provide that a qualified successor servicer can and will be appointed following certain
2 servicer defaults.

3 9. The rating agencies will want assurance that the permitted servicing fee will be
4 adequate to obtain a replacement servicer in the unlikely event that transfer of servicing is
5 required.

6 10. The rating agencies must be convinced that the Finance Order's terms regarding
7 the credit standards, remittance requirements, and deposit mechanisms relating to the
8 possibility of third party billing parties are adequate and will be enforced.

9 All of these requirements are properly provided for in the proposed structure of the
10 transaction and the draft Finance Order. Rating agencies found all of these requirements
11 met by the previous New Hampshire statutes and the documents in prior New Hampshire
12 securitization transactions. The documents and Finance Order in this proceeding will be
13 patterned closely on PSNH's prior securitizations and PSNH expects to be able to again
14 meet the rating agency criteria to achieve triple-A ratings for the rate reduction bonds.

15 **Q. What is the importance of the predictability and nonbypassability of RRB Charges?**

16 A. In order to obtain the highest feasible credit rating, the revenue stream associated with the
17 RRB Charge should be secure and predictable. The RRB Charges will be assessed and
18 collected from all retail electric customers obligated to pay the RRB Charge (as described
19 in the Petition and related testimony) to the Servicer (or any successor Servicer). The
20 credit rating for the bonds will depend on the predictability and stability of that revenue
21 stream even under financial stress or changes in circumstances.

22 It is important that the RRB Charges be nonbypassable. In other words, a retail electric
23 customer of the PSNH's service territory consisting of the area established by the

1 Commission as of February 13, 2015, together with any other geographic area in which
2 PSNH actually provided retail electric service on such date and any new geographic areas
3 in which PSNH is granted a franchise for the provision of retail electric service
4 subsequent to such date must pay the RRB Charge regardless of whether it purchases
5 energy from PSNH or a third party generation supplier, or whether such service territory
6 is operated by PSNH or a successor. The SPE, not the utility or any other collection agent,
7 including a TPB, must have the right to receive such RRB Charges.

8 **Q. Please describe the irrevocable nature of the Finance Order.**

9 A. In accordance with RSA 369-B:3, II the Finance Order is irrevocable and neither the
10 Commission nor any successor finance order or otherwise may, directly or indirectly,
11 revalue or revise for ratemaking purposes the RRB Costs, or the costs of providing,
12 recovering, financing, or refinancing the RRB Costs, determine that such RRB Charge is
13 unjust or unreasonable, or in any way reduce or impair the value of the RRB Property
14 either directly or indirectly by taking such RRB Charge (other than the portion of such
15 RRB Charge constituting a servicing fee payable to PSNH) into account when setting
16 other rates for PSNH, nor shall the amount of revenues arising with respect to the RRB
17 Charge be subject to reduction, impairment, postponement or termination.

18 **Q. Please describe the State of New Hampshire pledge and other statutory safeguards**
19 **that will support the credit rating of the bonds.**

20 A. RSA 369-B:6, II includes a pledge that neither the state, nor any of its agencies, including
21 the Commission, shall limit, alter, amend, reduce, or impair the RRB Charge, the RRB
22 Property, the Finance Order, and all rights thereunder or ownership thereof or security

1 interest therein until the bonds, including all principal, interest, premium, costs and
2 arrearages thereon, are fully met and discharged.

3 **Q. What concerns do the rating agencies have with a third party biller?**

4 A. To the extent a TPB bills, collects and remits RRB Charges, the process is one step
5 removed from the Servicer, which may result in the Servicer receiving the RRB Charges
6 later than it otherwise would. The greater the delay in receipt of payment, the larger the
7 amount of payments subject to the risk of non-payment due to default, bankruptcy or
8 insolvency of the TPB holding the funds. TPB billing places increased information
9 requirements on the Servicer. It requires the Servicer to perform double tracking of RRB
10 Charge payments because the Servicer has the responsibility of accounting for the RRB
11 Charge payments due to RRB holders regardless of which entity provides a customer's
12 electric power. As a result, the security of the cash flows that constitute RRB Property
13 may be reduced, thereby increasing risks to investors, potentially reducing the credit
14 rating and/or increasing the interest rate of the bonds that would be required by investors.
15 This concern is especially acute if the TPB is a start-up company or minimally capitalized
16 entity unrated by rating agencies.

17 It is important that the Commission ensure that any TPB, in the event there is any change
18 in utility regulation, must bill, collect and remit the RRB Charges in a manner that will
19 not cause any of the then-current credit ratings of the bonds to be suspended, withdrawn,
20 or downgraded. Language to this effect is included in the proposed Finance Order.

1 **Q. Do you believe that the proposed structure of the RRB Transaction has been**
2 **designed to achieve the highest possible credit ratings?**

3 A. Yes.

4 **Q. Are the terms of the RRB Transaction, as described in this testimony the final terms**
5 **of the proposed transaction?**

6 A. No. Certain details regarding the issuance of the rate reduction bonds, including without
7 limitation, interest rates, the expected amortization schedule and the expected and legal
8 maturity dates are entirely dependent upon market conditions at the time the bonds are
9 issued, and until that time such terms cannot be finalized. Additionally, only after the
10 rating agencies have performed their due diligence will the required reserve and capital
11 contribution amounts be determined. At that time, the rating agencies may require
12 further changes to the terms of the transaction in order for the rate reduction bonds to
13 achieve triple-A ratings.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes.