



THE STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

PREPARED TESTIMONY OF EMILIE G. O'NEIL

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 business address.**

2 A. My name is Emilie G. O'Neil. My business address is 247 Station Drive, Westwood,
3 Massachusetts.

4 Q. **By whom are you employed and in what capacity?**

5 A. I am the Assistant Treasurer – Corporate Finance and Cash Management for Eversource
6 Energy Service Company, which is an affiliated service company of Eversource Energy
7 and its subsidiaries, including Public Service Company of New Hampshire (“PSNH” or
8 the “Company”), d/b/a Eversource Energy (“Eversource”).

9 Q. **Please summarize your education and professional background.**

10 A. In May 1986, I earned a Master of Business Administration with a concentration in
11 Accounting and Finance from Cornell University. In May 1982, I earned a Bachelor's
12 degree in Economics from Columbia University.

13 Q. **Please summarize your professional experience.**

14 A. I joined Boston Edison Company in 1987 in the Corporate Finance and Cash
15 Management group. Over the past 30 years, I have held various positions of increasing

1 responsibility within Boston Edison Company, NSTAR and Eversource Energy. I was
2 promoted to the position of Director, Corporate Finance and Cash Management of
3 NSTAR in 1999. Upon consummation of the Northeast Utilities and NSTAR merger in
4 April 2012, I was appointed as Director, Corporate Finance and Cash Management of
5 Eversource. On March 30, 2017, I was promoted to Assistant Treasurer – Corporate
6 Finance and Cash Management for Eversource Energy Service Company.

7 **Q. Please describe your duties and responsibilities.**

8 A. My primary responsibilities include cash management, development and implementation
9 of long-term financing plans, lease financings, capital structure and credit. I have
10 testified in eighteen previous financing-related applications: Public Service Company of
11 New Hampshire, DE 13-156 (2013) (issuance of long-term debt); Public Service
12 Company of New Hampshire, DE 14-238 (2015) (securitization); NSTAR Gas Company,
13 D.P.U. 15-01 (2015) (issuance of first mortgage bonds); Western Massachusetts Electric
14 Company, D.P.U. 15-127 (2015) (issuance of long-term debt); NSTAR Gas Company,
15 D.P.U. 09-57 (2009) (issuance of first mortgage bonds); NSTAR Electric Company,
16 D.P.U. 16-189 (2016) (2017-2018 Finance Plan); NSTAR Electric Company, D.P.U. 13-
17 133 (2013) (2014-2015 Finance Plan); NSTAR Electric Company, D.P.U. 12-32 (2012)
18 (2012-2013 Finance Plan); NSTAR Electric Company, D.P.U. 08-124 (2008) (2009-2010
19 Finance Plan); NSTAR Electric Company, D.P.U. 07-43 (2007) (2007-2008 Finance
20 Plan); Boston Edison Company and Commonwealth Electric Company, D.T.E. 04-70
21 (2004) (securitization); Boston Edison Company, D.T.E. 03-129 (2003) (2004-2005
22 Finance Plan); Boston Edison Company, D.T.E. 00-62 (2000) (2001-2002 Finance Plan);
23 Boston Edison Company, D.T.E. 98-118 (1998) (securitization); Boston Edison

1 Company, D.P.U. 94-160 (1994); Boston Edison Company, D.P.U. 92-253 (1992),
2 Boston Edison Company, D.P.U. 92-244 (1992); and Commonwealth Electric Company,
3 D.T.E. 02-51 (2002) (issuance of long-term debt).

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

5 A. In its review of the 2015 Public Service Company of New Hampshire Restructuring and
6 Rate Stabilization Agreement dated June 10, 2015 (as amended, the “2015 Settlement
7 Agreement”), the Commission approved the use of a securitized financing via the
8 issuance of Rate Reduction Bonds (“RRBs”) under RSA Chapter 369-B to fund recovery
9 by PSNH of unrecovered deferrals, transaction costs, tax stabilization payments,
10 employee protections and other costs as contemplated in the 2015 Settlement Agreement.

11 The purpose of my testimony is to support the Company’s petition for issuance of a
12 Finance Order authorizing the issuance of the RRBs as contemplated in the 2015
13 Settlement Agreement.

14 I explain the methodology for determining the RRB Charge which is a portion of the
15 stranded cost recovery charge (“SCRC”) required to satisfy the Periodic RRB Payment
16 Requirements (as defined below) for the proposed issuance (the “RRB Transaction”) of
17 RRBs and identify the anticipated transaction costs of the RRB Transaction.

18 The Company is also presenting testimony of Katrina Niehaus of Goldman Sachs. The
19 Company has selected Goldman Sachs to be the structuring agent for the proposed
20 securitization financing. Ms. Niehaus describes the securitization process, the
21 requirements for a Triple-A rating, and the mechanisms currently used in the marketplace
22 to support such a rating.

1 The Company is also presenting the testimony of Christopher Goulding, Manager –
2 Revenue Requirements. Mr. Goulding discusses the ratemaking measures and tariff
3 changes necessary to implement the RRB issuance. He also discusses how the RRB
4 Charge will be allocated among rate classes as approved in the 2015 Settlement
5 Agreement.

6 **Q. What is PSNH seeking from the Commission in this proceeding?**

7 A. In connection with the 2015 Settlement Agreement, PSNH is requesting the opportunity
8 to securitize certain costs that will result from the divestiture of its generation assets. The
9 categories of permissible stranded costs that may be securitized are identified in RSA
10 369-B:3,IV,(c) as “stranded costs, deferrals, transaction costs, tax liabilities, employee
11 protections, payments in lieu of taxes, and other expenditures as contemplated in the
12 2015 [S]ettlement [Agreement].” These costs are detailed in the 2015 Settlement
13 Agreement which provides (at lines 261-264):

14 RRBs shall be authorized in an amount sufficient to fund
15 reasonably expected stranded costs, cost and revenue deferrals,
16 transaction costs, transaction advisor fees, tax liabilities, employee
17 protections, tax stabilization payments, decommissioning costs,
18 retirement costs, environmental costs, and other costs, liabilities,
19 and expenditures set forth in this Agreement...

20 We are requesting that the Commission issue a Finance Order approving this
21 securitization financing. In the Finance Order, among other things, PSNH requests that
22 the Commission: (i) approve the issuance of RRBs in an amount within an approved
23 range, (ii) approve the organization and capitalization of the special purpose entity (the
24 “SPE”) to which the RRB Property will be sold, (iii) establish the RRB Property and the
25 RRB Charge as irrevocable vested property rights per RSA 369-B:2, XV and RSA 369-
26 B:6, I, (iv) provide for the establishment and periodic adjustment of the RRB Charge via

1 the True-Up Mechanism (as described herein), (v) approve the general structure and
2 terms of the RRBs (as summarized herein), (vi) approve the servicing of the RRB Charge
3 (which includes the calculating, billing, collecting and filing for periodic adjustments to
4 the RRB Charge) by PSNH as the initial servicer for the RRB Property (the “Servicer”),
5 or any successor servicer (a “Successor Servicer”), (vii) approve necessary tariff
6 provisions required to implement recovery of the RRB Charge from customers, (viii)
7 declare the Finance Order irrevocable as provided in RSA 369-B, (ix) find the RRB
8 Charge to be established in accordance with the Company’s petition to be just and
9 reasonable, and (x) find and declare the issuance of the Finance Order to be consistent
10 with the public interest pursuant to RSA 369-B:3, I and RSA 369-B:1, XVI.

11 The Company’s Petition sets forth a detailed transaction description and findings that we
12 request be included in the Finance Order. The Petition also includes Findings, Orders
13 and Approvals that the Company requests be included in the Finance Order.

14 **Q. What is the expected principal amount of the securitization financing?**

15 A. The principal amount to be financed is not yet known. As a result, PSNH is not
16 requesting that the Commission authorize issuance of a particular principal amount but
17 instead requests that the Commission approve the issuance of the RRBs so long as the
18 aggregate principal amount is within the range of principal amounts set forth in the
19 testimony of Mr. Eric H. Chung that is being filed contemporaneously with my updated
20 testimony. The Issuance Advice Letter submitted by the Company after the pricing date
21 of the RRBs will contain the initial principal amount of the securitization financing,
22 which will be calculated using the range approved by the Commission.

1 **Q. Has PSNH previously issued RRBs?**

2 A. Yes, PSNH completed the two securitization financings listed below using a structure
3 substantially the same as that contemplated for the upcoming RRB Transaction:

| 4 | <u>Year</u> | <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>PUC Order No.</u> |
|---|-------------|-------------------------|-----------------|----------------------|----------------------|
| 5 | 2001 | \$525 million | 5/1/2013 | 4.57-6.48% | 23,550 |
| 6 | 2002 | \$50 million | 2/1/2008 | 4.58% | 23,859 |

7 The 2001 issuance securitized stranded costs created by the divestiture of Seabrook
8 Station pursuant to RSA 369-B:3,IV,(b). The 2002 issuance securitized the costs to
9 refinance a number of PURPA rate order obligation pursuant to RSA 369-B:3,IV,(a).

10 These previous securitization financings were successfully issued and paid in full as
11 scheduled, using a methodology that is substantially the same as that proposed herein.

12 **Q. Please summarize the proposed PSNH RRB transaction.**

13 A. The 2015 Settlement Agreement includes an overview of the RRB Transaction
14 (beginning at line 774). The Petition includes a detailed Transaction Description. The
15 following steps illustrate the proposed RRB transaction and the cash flows involved:

16 1. Pursuant to the 2015 Settlement Agreement, PSNH is seeking approval to
17 securitize certain costs via Part 1 of the SCRC (or the RRB Charge).

18 2. The right to recover the RRB Costs via the RRB Charge is irrevocable, pursuant
19 to RSA 369-B:6 and the declaration by the Commission that the Finance Order be
20 irrevocable (such irrevocable right, the RRB Property).

1 3. PSNH will create a bankruptcy-remote SPE, which will be wholly-owned by
2 PSNH. If recommended by the structuring agent in light of market conditions at the time
3 of the issuance of the RRBs, PSNH may create more than one bankruptcy-remote SPE,
4 which will be wholly-owned by PSNH. However, PSNH believes it is unlikely that
5 multiple SPEs will be required. PSNH shareholders will capitalize the SPE in an amount
6 anticipated to be at least 0.50% of the initial principal balance of RRBs and deposited
7 into the Capital Subaccount (as defined below). This capitalization is required by the
8 rating agencies in order to provide a source of credit enhancement.

9 4. The SPE will need to enter into an administration agreement (the “Administration
10 Agreement”) with PSNH pursuant to which PSNH shall perform administrative services
11 and provide facilities for the SPE to ensure that it is able to perform such day-to-day
12 operations as are necessary to maintain its existence and perform its obligations under the
13 RRB transaction documents. Pursuant to the Administration Agreement, PSNH will be
14 paid a fee (the “Administration Fee”) in an amount commensurate with its costs of
15 performing such services and providing such facilities.

16 5. PSNH will sell all of its rights in the RRB Property to the SPE in a transaction
17 that will be intended and treated as a legal true sale and absolute transfer to the SPE. The
18 SPE will issue and sell RRBs to capital markets investors. The RRBs will be payable
19 solely from cashflows associated with RRB Property, primarily the RRB Charges.

20 6. All of the assets of the SPE, including the RRB Property and the other collateral
21 of the SPE (the “Other SPE Collateral”) will be pledged as collateral to secure RRBs.
22 The Other SPE Collateral will include, without limitation, (i) the rights of the SPE under

1 the RRB transaction documents including the purchase agreement by which the SPE
2 acquires the RRB Property and the agreement setting forth the servicing arrangements
3 between the Servicer (and any Successor Servicer) and the SPE (the “Servicing
4 Agreement”), (ii) the Collection Account and any subaccounts contained in the
5 Collection Account, including the General Subaccount, the Excess Funds Subaccount and
6 the Capital Subaccount (each as defined in the testimony of Ms. Niehaus) and (iii) any
7 investment earnings on amounts held by the SPE (with the exception of the earnings on
8 the Capital Subaccount). The Other SPE Collateral will not include any investment
9 earnings on amounts held in the Capital Subaccount (as described below), which
10 investment earnings will be remitted on a monthly basis to PSNH, in its capacity as the
11 equityholder of the SPE.

12 7. The proceeds of the RRBs will be received by the SPE and remitted to PSNH as
13 consideration for the RRB Property.

14 8. After the RRB issuance, PSNH, acting as Servicer on behalf of the SPE, or any
15 Successor Servicer, will bill and collect the RRB Charge from customers. PSNH will
16 transfer the RRB Charge collections to the SPE and the SPE will use these collections to
17 make payments of principal and interest to holders of the RRBs, as well as any ongoing
18 transaction costs. The Servicer or any Successor Servicer will be paid a fee by the SPE
19 for performing its servicing duties (the “Servicing Fee”).

20 9. PSNH will bill customers the RRB Charge regardless of who they have chosen as
21 their energy supplier and regardless of whether or not they are self-generating (so long as

1 they are connected to PSNH's distribution system for back-up power), thus, the RRB
2 Charge shall be non-bypassable as set forth in RSA Chapter 369-B.

3 **Q. Please describe the Company's proposed process of billing, collecting and remitting**
4 **RRB Charges.**

5 A. As set forth in the 2015 Settlement Agreement, the RRB Charge will be Part 1 of the
6 SCRC, which is dedicated to the payment of the RRBs, as defined in RSA 369-B:2. XIII.
7 PSNH, or any successor Servicer, is expected to remit to the trustee (the "RRB Trustee")
8 of the special purpose entity formed to issue the RRBs on a daily basis an amount equal
9 to the actual RRB Charges billed, less an allowance for estimated RRB Charge charge-
10 offs, on or about the day such amounts are deemed to be collected.

11 The deemed collection date will be the weighted average number of days, based on the
12 Company's historical collections experience, that a monthly bill for services remains
13 outstanding before payment by a customer. Currently, PSNH estimates the deemed
14 collection date to be 30 days from the date RRB Charges are billed. PSNH expects to
15 review deemed collections data not less than annually and may adjust the deemed
16 collection date based on actual payment patterns.

17 The allowance for estimated RRB Charge charge-offs is the Company's system-wide
18 allowance for charge-offs. The Company will reconcile such remittances at least once
19 annually for all remittances made in the previous year to more accurately reflect the
20 amount of RRB Charges that should have been remitted, based on the actual system-wide
21 charge-off percentage. To the extent such remittances reflecting billed amounts exceed
22 the actual RRB Charges collected by the Servicer (an "Excess Remittance"), the Servicer

1 will withhold such Excess Remittance amount from any subsequent remittance to the
2 RRB Trustee. To the extent such remittances reflecting billed amounts are less than the
3 actual RRB Charges collected (a “Remittance Shortfall”), the Servicer shall remit the
4 amount of such Remittance Shortfall to the RRB Trustee on a future remittance date.

5 **Q. How will the Company remit RRB Charges to the RRB Trustee?**

6 A. The Company, or any successor Servicer, expects to deposit remittances to the General
7 Subaccount of the Collection Account maintained by the RRB Trustee on a daily basis.
8 These monies will be held in the General Subaccount by the RRB Trustee and will be
9 invested in certain eligible investments until each payment date.

10 **Q. How will the RRB Trustee distribute the aggregate amount of RRB Charges**
11 **received?**

12 A. The aggregate amount of RRB Charges received will be distributed by the RRB Trustee
13 to pay the principal and interest on the RRBs, together with the ongoing transaction costs,
14 including:

- 15 1. the Servicing Fee (as defined below);
- 16 2. the Administration Fee (as defined below);
- 17 3. RRB Trustee fees and expenses;
- 18 4. legal fees;
- 19 5. accounting and auditing fees;
- 20 6. SPE independent managers’ fees; and
- 21 7. rating agency fees;

1 The principal and interest on the RRBs and these transaction costs, along with potential
2 replenishments of the Capital Subaccount and deficiencies of past due principal and
3 interest for any reason, a “Periodic RRB Payment Requirement,” are collectively, the
4 “Total RRB Payment Requirements”.

5 Amounts held in the General Subaccount will be distributed in the following general
6 order of priority: (1) for payment of certain ongoing transaction costs; (2) for payment of
7 accrued and unpaid interest; (3) for payment of current and deferred principal; and (4) for
8 payments of any remaining ongoing transaction costs not covered in (1) above; and (5)
9 for replenishment of the Capital Subaccount. Any amounts remaining in the General
10 Subaccount after meeting all the Periodic RRB Payment Requirements for the period will
11 be transferred to the Excess Funds Subaccount.

12 **Q. Please describe how the Total RRB Payment Requirements will be allocated**
13 **amongst rate classes.**

14 **A.** The 2015 Settlement Agreement requires that the Total RRB Payment Requirements be
15 allocated among PSNH’s customer classes in accordance with the following rate design:

| | <u>Rate Class</u> | <u>Percentage of Total RRB Payment Requirements</u> |
|---|---|---|
| 3 | LG – Large General Service (> 1,000 kW) | 5.75% |
| 4 | GV – Primary General Service (\leq 1,000 kW) | 20.00% |
| 5 | G – General Service (\leq 100 kW) | 25.00% |
| 6 | R – Residential | 48.75% |
| 7 | OL – Outdoor Lighting | 0.50% |

8 If any customer class is materially reduced or consolidated to zero, its applicable
9 allocation factor will be reallocated through a Non-Routine True-Up Letter (as defined
10 below) on a pro-rata basis between remaining rate classes based on the then current
11 allocation responsibility.

12 In his testimony, Mr. Goulding describes in more detail the ratemaking aspects of this
13 cost recovery process.

14 **Q. How will the Company calculate the RRB Charges?**

15 A. Both initially and during the life of the RRBs, the RRB Charges will be calculated and set
16 at a level intended to cover the Periodic RRB Payment Requirements. Specifically, RRB
17 Charges will be calculated to cover (i) the principal (in accordance with the expected
18 amortization schedule set forth at pricing) and interest on, the RRBs, (ii) ongoing
19 transaction costs (including the Servicing Fee (as defined below), the Administration Fee
20 (as defined below), RRB Trustee fees and expenses, rating agency fees, legal, accounting
21 and auditing fees, SPE independent managers' fees and any indemnity obligations that
22 are anticipated to be payable under the RRB transaction documents on or prior to the next

1 RRB payment date), (iii) the cost of establishing and maintaining any credit enhancement
2 required for the RRBs, including replenishment of any amounts drawn from the Capital
3 Subaccount (as described in the testimony of Ms. Niehaus) such that the balance is equal
4 to the targeted level, and (iv) to pay any amounts of previous RRB Payment
5 Requirements not satisfied in the previous payment period for any reason. The projected
6 RRB Charges will be calculated using assumptions set forth in the Issuance Advice Letter
7 (see 2015 Settlement Agreement at lines 802-804) and each subsequent true-up filing
8 which shall include but not be limited to projected kwh usage by customer class,
9 expected charge-offs and expected weighted average days sales outstanding. The RRB
10 Charges will be billed until the SPE has collected RRB Charges sufficient to discharge
11 the Total RRB Payment Requirements.

12
13 When the pricing terms for RRBs are finalized, the required principal amortization
14 payments will also be established. The total scheduled RRB Charge collections for any
15 annual or, if necessary, shorter period will include collections resulting from bills sent in
16 prior periods and from bills sent in the current period, in each case, as a result of the
17 expected timing of collections from the retail users of the Company's distribution system.

18 The RRB Charges will vary over the life of the RRB Transaction as a result of several
19 factors, including changes in the outstanding principal balance of RRBs, changes in the
20 weighted average interest cost of RRBs as the principal balance outstanding decreases,
21 the impact of the variability of energy sales and forecasts, changes in payment patterns
22 and charge-off experience, as well as changes in any ongoing RRB transaction costs. The
23 calculation of the RRB Charges incorporates each of these factors.

1 Q. **What are the forecasted initial RRB Charges?**

2 A. PSNH proposes to file the initial RRB Charge for each rate class with the Issuance
3 Advice Letter after the RRBs are priced, but prior to their issuance, in compliance with
4 the Finance Order. PNSH requests the Commission's approval of the method for
5 determining the initial RRB Charges so that the RRB Charges set forth in the Issuance
6 Advice Letter will automatically become effective as of such filing.

7 Q. **What information will be incorporated into the calculation of the initial charge?**

8 A. 1. The securitized amount;
9
10 2. Estimated annual ongoing transaction costs;
11
12 3. Level principal payments for each year over the fifteen-year expected amortization
13 schedule of the RRBs;
14
15 4. Semi-annual payments of principal and interest on the RRBs;
16
17 5. The number of days after a customer is billed that RRB Charges are deemed collected
18 (based on historical collections experience);
19
20 6. Daily remittances of deemed RRB Charge collections to the General Subaccount;
21
22 7. Projected kWh sales by rate class for the upcoming year;
23
24 8. A charge-off rate determined based on historical collections experience at the time of
25 issuance of the RRBs;

1 9. Any lags between a payment date and the latest date for which deemed RRB Charge
2 collections available to the RRB Trustee are applied to a payment date (a time period
3 which allows the Servicer to properly account for deemed RRB Charge collections); and

4 10. Weighted average coupon rates.

5 **Q. Please describe how the RRB Charges will be adjusted through the true-up**
6 **mechanism.**

7 A. The RRB Charge “true-up” mechanism (the “True-Up Mechanism”) is a periodic
8 adjustment to the RRB Charge, which adjusts the RRB Charge to ensure that there are
9 adequate funds for meeting Periodic RRB Payment Requirements. This feature addresses
10 any cash flow variability and is a positive factor in reducing the need for additional credit
11 enhancements, as the True-Up Mechanism has no upfront cost. The Servicer will file
12 with the Commission true-up advice letters (defined below) which will define the new
13 RRB Charges and identify the number of days after a customer is billed that RRB
14 Charges are deemed collected, the RRB charge-off percentage and the forecasted kwh
15 billed by rate class.

16 Not later than January 15 of each year while the RRBs are outstanding, the Servicer will
17 file with the Commission a true-up advice letter (“Annual Routine True-Up Letter”). The
18 RRB Charges will be adjusted to ensure that there are adequate funds to meet the next
19 two (August 1 and February 1) Periodic RRB Payment Requirements.

20 In addition, if the Servicer, as of July 15 of each year while the RRBs are outstanding,
21 reasonably projects that expected collections of the RRB Charges will be insufficient to

1 meet the next Periodic RRB Payment Requirements (February 1), the Servicer will file a
2 true-up advice letter (“Mid-year Routine True-Up Letter”) not later than July 15 of such
3 year.

4 In addition, (a) except during the two Remittance Periods preceding the maturity date of
5 the latest maturing tranche of RRBs, the Servicer may (but shall not be required to) file
6 an additional true-up advice letter (“Other Routine True-Up Letter” and together with the
7 Annual Routine True-Up Letter and Mid-year Routine True-Up Letter, a “Routine True-
8 Up Letter”) not later than the date that is 15 days before the end of the then-current
9 calendar month if the Servicer reasonably projects that expected collections of the RRB
10 Charges will be insufficient to meet the next Periodic RRB Payment Requirements (either
11 February 1 or August 1) and (b) during the two Remittance Periods preceding the
12 maturity date of the latest maturing tranche of RRBs, if the Servicer reasonably projects
13 that expected collections of the RRB Charges will be insufficient to meet the next
14 Periodic RRB Payment Requirements, the Servicer shall file an Other Routine True-Up
15 Letter not later than the date that is 15 days before the end of the then-current calendar
16 month.

17 Absent manifest error in a Routine True-Up Letter, the resulting upward or downward
18 adjustments to the RRB Charges will be deemed approved by the Commission and
19 effective: (i) in the case of any Annual Routine True-Up Letter, on the ensuing February
20 1; (ii) in the case of any Mid-year Routine True-Up Letter, on the ensuing August 1; or
21 (iii) in the case of an Other Routine True-Up Letter, on the first day of the ensuing
22 month.

1 In addition, PSNH seeks Commission authorization that whenever it is determined that
2 the methodology used to calculate RRB Charge adjustments requires modification to
3 more accurately project and generate adequate RRB Charge collections, a non-routine
4 true-up letter (“Non-Routine True-Up Letter”) may be filed, with the resulting RRB
5 Charge adjustments (reflecting such modification to the methodology or model) to be
6 effective upon review and approval by the Commission within 30 days of such filing.

7 Both Routine True-Up Letters and Non-Routine True-Up Letters shall be filed
8 periodically through the legal final maturity date of the latest maturing tranche of RRBs.

9 The adjusted RRB Charges in each Routine True-Up Letter and Non-Routine True-Up
10 Letter will be calculated such that the aggregate RRB Charges billed for the applicable
11 period will result in RRB Charge collections that are sufficient to meet Periodic RRB
12 Payment Requirements. When calculating the adjusted RRB Charges, any amounts in the
13 Excess Funds Subaccount (as described in the testimony of Katrina Niehaus) on any true-
14 up date will be taken into account such that the balance in the Excess Funds Subaccount
15 will be expected to be zero at the end of the period for which the RRB Charges are being
16 adjusted.

17 This True-Up Mechanism is substantially identical to what was used in PSNH’s two prior
18 securitization financings. The only difference of any substance is that in the prior
19 securitization financings, routine true-up letters were filed semi-annually, instead of
20 annually as proposed here.

1 Q. **How will subsequent RRB Charges be calculated?**

2 A. As an example of a subsequent adjustment calculation, the RRB Charges to be
3 established with the first Annual Routine True-Up Letter expected to be filed on January
4 15, 2019 and scheduled to be in effect through January 31, 2020, must be derived such
5 that the aggregate RRB Charges billed for such period will result in deemed RRB Charge
6 collections that are sufficient (i) to pay the estimated ongoing transaction costs incurred
7 from February 2, 2019 through February 1, 2020, including the semi-annual payments of
8 the Servicing Fee and the Administration Fee on August 1, 2019 and February 1, 2020;
9 (ii) to make semiannual interest payments on August 1, 2019 and February 1, 2020; (iii)
10 to reduce the principal balance of RRBs on August 1, 2019 and February 1, 2020 in
11 accordance with the expected amortization schedule; (iv) to replenish the Capital
12 Subaccount to the targeted balance if necessary; and (v) to pay any amounts of previous
13 Periodic RRB Payment Requirements not satisfied in the previous year. Factors used in
14 the calculation will include the forecasted kwh billed by rate class for the upcoming year,
15 the number of days after a customer is billed that RRB Charges are deemed collected and
16 the RRB charge-off percentage.

17 This calculation will also take into account any balance in the Excess Funds Subaccount
18 as of the filing of the Annual Routine True-Up Letter.

19 On the semi-annual payment dates of February 1 and August 1, if available RRB Charge
20 collections and investment earnings in the General Subaccount exceed the amount
21 necessary to pay the Periodic RRB Payment Requirement, such excess will be transferred
22 to the Excess Reserve Subaccount and will serve to reduce the RRB Charge and the

1 required amount of RRB Charge collections in the subsequent period. Conversely, if the
2 available RRB Charge collections and investment earnings in the General Subaccount are
3 less than necessary to pay the Periodic RRB Payment Requirement, then any funds in the
4 Excess Funds Subaccount will be used first to meet the Periodic RRB Payment
5 Requirement.

6 **Q. Please describe the estimated upfront transaction costs of issuing RRBs.**

7 A. The Company estimates the upfront transaction costs of issuing \$690,000,000 of RRBs
8 based on commercially reasonable assumptions to be approximately \$6,900,000 as
9 described in more detail in Schedule 1. These transaction costs will include accounting
10 and auditing fees, legal fees and expenses, printing and filing costs, rating agency fees,
11 Securities and Exchange Commission registration fees (“SEC Fees”), servicer set-up
12 costs, the Structuring Agent fee, RRB Trustee fees, underwriting costs, original issue
13 discount on the RRBs and other costs to establish the securitization structure. Certain of
14 the upfront transaction costs will vary depending upon the actual principal amount of
15 RRBs to be issued, prevailing market rates as determined at the time of RRB pricing, the
16 timing of the RRB Transaction and/or the complexity of the agreements governing the
17 RRBs. The upfront transaction costs can only be estimated at this time because the actual
18 expenses will not be known until the principal amount of the financing is determined, the
19 applicable agreements are negotiated and the actual costs are incurred.

20 **Q. How will the Company recover the upfront transaction costs of issuing RRBs?**

21 A. The Company proposes to recover the upfront transaction costs of issuing RRBs out of
22 the proceeds of the RRB Transaction and to include such costs as securitized costs

1 pursuant to RSA 369-B:3,IV,(c). To the extent payment prior to issuance is required,
2 such costs will be paid by PSNH on behalf of the SPE and reimbursed from the proceeds
3 of the RRB Transaction.

4 **Q. What are the ongoing transaction costs of the RRB Transaction?**

5 A. In addition to the Servicing Fee described below, it is anticipated that other costs and
6 expenses will be incurred throughout the life of the RRBs. A list of the expected
7 expenses, assuming an RRB issuance of \$690,000,000, estimated to total approximately
8 \$660,000 annually, is set forth in Schedule 2 and will include the Administration Fee
9 described below, the ongoing rating agencies fees, fees and expenses for the RRB
10 Trustee, legal, accounting and auditing fees, SPE independent managers' fees and other
11 costs. The ongoing transaction costs of the RRB Transaction can only be estimated at
12 this time because the actual expenses will not be known until the principal amount of the
13 financing is determined, the applicable agreements are negotiated and the actual costs are
14 incurred. Current estimates of the ongoing transaction costs are based on commercially
15 reasonable assumptions with input from the structuring agent.

16 **Q. What is the estimated servicing fee and how will it be calculated?**

17 A. In consideration for its servicing responsibilities, the Servicer will receive a periodic
18 servicing fee (the "Servicing Fee") which will be recovered through the RRB Charges.
19 To support the bankruptcy analysis, the Servicing Fee must be on arm's length terms and
20 market-based. The Servicing Fee is estimated to cover out-of-pocket costs and expenses
21 incurred by PSNH to service RRBs including, without limitation, billing, monitoring,

1 collecting and remitting RRB Charges, and reporting requirements imposed by the
2 Servicing Agreement.

3 Subject to changes in market conditions and rating agency requirements, the Servicing
4 Fee will be calculated as a percentage of the initial principal balance of RRBs. The
5 annual Servicing Fee to be paid to PSNH is currently expected to be approximately
6 0.05% of the initial principal balance, payable semi-annually or more frequently, and
7 represents a reasonable, good faith estimate of the ongoing marginal cost to PSNH of
8 fulfilling servicing responsibilities. A higher servicing fee of up to approximately 0.60%
9 will be paid to any other Servicer that does not concurrently bill the RRB Charges with
10 other charges for service to reflect the additional costs related thereto.

11 **Q. Please describe other ongoing transaction costs in more detail.**

12 A. (1) Pursuant to the Administration Agreement, PSNH or a third party will act as
13 administrator of the SPE, providing ministerial services and facilities necessary for the
14 day-to-day operations of the SPE in return for the Administration Fee. The expected
15 administration fee shall be a fixed amount not to exceed \$75,000 annually (the
16 “Administration Fee”). Additional SPE expenses will include the miscellaneous costs
17 associated with operating the SPE.

18 (2) The rating agencies will assess ongoing fees associated with the monitoring of each
19 RRB offering.

20 (3) The RRB Trustee will receive a fee for, among other things, (i) investing the RRB
21 Charge collections received from the Servicer in high quality, short-term and long-term

1 debt instruments; (ii) maintaining a record of bondholders; (iii) calculating and remitting
2 interest and principal payments to the bondholders; and (iv) reporting as required by the
3 Commission or any other regulatory body.

4 (4) In addition, the SPE will incur ongoing accounting and legal fees, SPE independent
5 managers' fees, certain indemnity obligations under the RRB Transaction documents, and
6 other miscellaneous costs from time-to-time.

7 **Q. How will the Company confirm to the Commission the final terms, pricing and costs**
8 **of the RRB Transaction?**

9 A. After pricing of the RRBs, but before issuance, the Company will file an Issuance Advice
10 Letter with the Commission, which will set forth the final structure and repayment terms
11 of the RRB Transaction, the identity of the SPE, the total principal amount and pricing of
12 the RRBs, the initial RRB charges by class to be implemented upon issuance of the
13 RRBs, the capital contribution amount and the actual upfront transaction costs. The final
14 terms and conditions of the RRBs, including the schedule of principal amortization, credit
15 enhancement, the frequency of principal or interest payments, the interest rates on the
16 RRBs, the number of credit ratings and the terms of the final transaction documents,
17 shall, to the extent consistent with the provisions of the Finance Order, be determined by
18 the Company.

19 **Q. How will earnings in each of the subaccounts be allocated?**

20 A. Earnings in each of the subaccounts will be allocated as follows:

21 General Subaccount: Earnings will be applied to make payments in the order defined by
22 the priority of payments as discussed previously. To the extent not required to make

1 payments of principal and interest, to fund ongoing transaction costs or to replenish
2 withdrawals from the Capital Subaccount, the earnings will be transferred to the Excess
3 Funds Subaccount and used to reduce future RRB Charges.

4 Capital Subaccount: Earnings on PSNH shareholder contributions to the Capital
5 Subaccount will be remitted to PSNH on a monthly basis.

6 Excess Funds Subaccount: To the extent not required to make payments of principal and
7 interest, to fund ongoing transaction costs or to replenish withdrawals from the Capital
8 Subaccount, the earnings will be reflected in the calculation of required true-up
9 adjustments and used to reduce future RRB Charges.

10 **Q. How will the proceeds of the RRB issuance be applied?**

11 A. The RRB proceeds combined with the sale proceeds from the proposed asset divestiture
12 contemplated by the 2015 Settlement Agreement are forecasted to be used as follows:

- 13 • To pay upfront transaction costs.
- 14 • To redeem outstanding PSNH debt.
- 15 • To pay a return of capital to Eversource to maintain a consistent capital structure at
16 PSNH.

1 Q. **Other than issuance of a Finance Order from the Commission, are any other**
2 **approvals necessary to consummate the securitization financing?**

3 A. Yes.

4 PSNH is regulated by the Maine Public Utilities Commission. Under Maine law, the
5 creation of a wholly-owned SPE is deemed to be a corporate reorganization that must be
6 approved by the Maine Public Utilities Commission. PSNH received such Maine PUC
7 approvals for its prior securitization financings. The Maine PUC Staff is aware of the
8 likelihood of another securitization financing by PSNH and timely receipt of the
9 necessary approval is expected.

10 Q. **Does this conclude your testimony?**

11 A. Yes.

Schedule 1

Estimated Upfront Transaction Costs based upon an RRB issuance of \$690,000,000*

| | |
|---|--------------------|
| Accounting and Auditing Fees | \$200,000 |
| Legal Fees and Expenses (Issuer's Counsel) | \$1,300,000 |
| Legal Fees and Expenses (Trustee's Counsel) | \$25,000 |
| Legal Fees and Expenses (Underwriter's Counsel) | \$800,000 |
| Printing and Filing Costs | \$250,000 |
| Rating Agency Fees (a) | \$1,000,492 |
| SEC Registration Fees (b) | \$85,904 |
| Servicer Set-up Costs | \$50,000 |
| Structuring Agent Fee | \$250,000 |
| Trustee Fees | \$25,000 |
| Underwriting Costs (c) | \$2,808,278 |
| Original Issue Discount | [•] ¹ |
| Miscellaneous (d) | \$100,000 |
| Total | \$6,894,675 |

* Estimate only. Based on a securitization size of approximately \$690 million.

¹ Original issue discount to be determined at time of pricing, but is expected to be *de minimis*.

(a) Assumes ratings from Moody's, S&P and Fitch. Based upon current fee schedules applied to issuance amounts which change from time to time.

(b) Assumed to be \$124.50 per million dollars of issuance.

(c) Assumes a 0.407% underwriting fee.

(d) Unforeseen expenses, if any.

Schedule 2

**Estimated Annual Ongoing Transaction Costs based upon an RRB issuance of
\$690,000,000***

| | |
|---|------------------|
| Servicing Fee (Paid to the Company) (a) | \$344,997 |
| Administration Fees and Expenses | \$75,000 |
| Trustee Fees and Expenses | \$25,000 |
| Legal Fees | \$50,000 |
| Accounting and Auditing Fees | \$100,000 |
| SPE Independent Manager's Fees | \$5,000 |
| Rating Agency Fees (b) | \$55,000 |
| Miscellaneous | \$5,000 |
| Total | \$659,997 |

* Estimate only. Based on a securitization size of approximately \$690 million.

(a) Assumes PSNH acts as servicer and earns an annual servicing fee equal to 0.05% of issuance amount.
(b) Based upon current scheduled fee levels which change from time to time.