EXHIBIT
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DE 17-096

Public Service of New Hampshire d/b/a Eversource Energy
Docket No. DE 17-096

Date Request Received: 12/06/2017 **Date of Response: 12/11/2017**
Request No. RR 1-012
Request from: **New Hampshire Public Utilities Commission Staff**

Witness: **Emilie G. O'Neil**

Request:
Assume that Eversource issues a principal amount of $600 million in Rate Reduction Bonds. Please discuss what Eversource will do with the $600 million in proceeds? Include a discussion of what Eversource intends to do to maintain its overall capitalization within the range directed by the Commission.

Response:
As discussed in the testimony of Ms. O'Neil (Hearing Exhibit 8 at Bates page 271):

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

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

Assuming $600 million is the principal amount of the securitization financing, and there are proceeds of $259 million from the sale of the asset divestiture ($175M thermal; $83M hydro; $1M Wyman 4), Eversource would receive total proceeds of $859 million.

From these total proceeds, upfront transaction costs would be paid. These costs include such things as: J. P Morgan's commission; legal costs charged by the Commission's consultant Sheehan, Phinney, Bass + Green; the Company's legal costs charged by its transaction counsel (Balch & Bingham) and its Vermont and Maine counsel (relating to the sales of Canaan Hydro and Wyman 4, respectively); the costs of the Schiller mercury removal program; the costs of environmental assessments conducted for each site being sold; the costs charged by NHDES for its review of those environmental assessments; the transaction costs for the securitization process, including legal, ratings, SEC registration, and the like; employee protection costs required by the Settlement and RSA 369-B:3-b; and other direct and stranded costs related to the divestiture process.

The net proceeds remaining after transaction costs are paid for primarily reflect the unrecovered book value of the assets that were sold as part of the divestiture process. These unrecovered book values reflect investments made by shareholders that ordinarily would have been recovered through rates as the investments were amortized over time. Instead, shareholders receive this otherwise unrecovered investment value from the asset sales and the RRB proceeds.

Unless Eversource manages these shareholder proceeds, they would sit on PSNH's accounts as shareholder equity. That would distort PSNH's capital structure. A utility's capital structure affects that utility's ability to raise debt capital and impairs rates. The State of New Hampshire recognized this in its "Memorandum of the State of New Hampshire Regarding the Utility Ratemaking Process" filed with the United States Bankruptcy Court, D. New Hampshire, in *In re Public Service Co. of New Hampshire*, Docket BK #88-43, on April 11, 1990, at pp. 12-13:

> The Commission may also look at whether the utility's capital structure is appropriate. In doing so, the Commission will examine whether the capital structure provides the utility with sufficient strength to withstand potential economic adversity and to have access to the capital markets in order to raise the funds necessary to invest in plant necessary to meet the requirements of service to the public. The commission may also look at the economic efficiency of the capital structure. Among the factors the commission will consider are the costs savings which can result from debt capital through the deductibility for tax purposes of interest payments. However, the commission will also consider the impact of the risks associated with leverage on the cost of debt and equity capital. Generally, the Commission will be looking to a capital structure which provides long-term strength for the utility and which is likely to produce the lowest overall cost of capital in the long run.

For illustrative purposes only, and using the hypothetical issuance of $600 million of rate reduction bonds set forth in this question, suppose that cost payments were made of $100 million. The net proceeds from the RRB issuance after payment of all costs would be $500 million.

Unless Eversource managed these shareholder proceeds, they would be added to the "Common Equity" of PSNH's capital structure. This would raise the Common Equity percentage well above an appropriate regulatory equity range. As common equity bears the highest cost, that would drive up PSNH's overall embedded cost of capital, ultimately causing rates to go up.

In order to maintain an appropriate regulatory capital structure , Eversource treasury must manage the outstanding equity and debt of PSNH. Eversource would determine what level of Common Equity and Debt is required to keep PSNH's equity ratio within an appropriate regulatory range. Excess common equity would need to be removed from PSNH's books. That is accomplished by paying a return of capital to PSNH's shareholders – i.e., its parent, Eversource Energy, which is PSNH's sole shareholder. (Recall, that the proceeds remaining after payment of costs belong to shareholders, not customers.)