STATE OF NEW HAMPSHIRE

Inter-Department Communication

NHPUC 23OCT'17PM4:28

DATE: October 23, 2017
AT (OFFICE): NHPUC

FROM: Jay E. Dudley, Utilities Analyst IV JD

SUBJECT: DE 17-133 Liberty Utilities (Granite State Electric) Corp d/b/a Liberty Utilities Petition for Authority to Issue Long Term Debt and to Waive Portions of Puc 308.12(b)

TO: Commission
Debra A. Howland, Executive Director

On August 28, 2017, Liberty Utilities (Granite State Electric) Corp d/b/a Liberty Utilities (Liberty or Company), filed a petition for authority to issue long term debt not to exceed an aggregate principal amount of $3,434,343.43. Liberty's filing included testimony, information required by Form F-4, and a request for waiver of Puc 308.12(b), specifically sub-sections (5), (7), and (9).[1] Staff recommends that the petition be approved and the waivers be granted.

Description of Proposed Financing

As part of Liberty's acquisition of Granite State from National Grid in 2012, the Commission authorized Liberty to issue up to $20 million in long term debt. Order No. 25,370 at 37-40 (May 30, 2012). The debt issued under that authority consisted of four separate tranches obtained from Liberty's parent company, Liberty Utilities Corp (LUC). The Company seeks authority to replace and refinance the first tranche in the amount of $3,434,343.43 that matures on December 20, 2017.[2] As such, the request does not represent new indebtedness for Liberty, but constitutes the refinancing of existing debt which, like the original financing, will be provided by LUC. The first tranche was originally issued for 5 years, however, Liberty is proposing a 15-year term for the refinancing, and proposes to price the debt based on the 15-year U.S. Treasury rate (published by Bloomberg one business day prior to closing) plus a credit spread of one

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[1] Puc 308.12(b)(5), (7), and (9) require a utility to file the following when seeking authority to issue securities:
(5) "Source and Application of Funds and Capitalization" showing a statement of capitalization ratios after giving effect to the proposed financing, including 3 years of history and 3 years of forecast data;
(7) Copy of the private placement memorandum for long term financing including any letter of commitment from a lender stating details of financing;
(9) Copy of terms of new common or preferred stock.

[2] The other three tranches and associated maturities were provided by Liberty as follows: $7,898,989.90 maturing December 20, 2022, $4,121,212.12 maturing December 20, 2027, and $1,545,454.55 maturing December 20, 2027. Petition at 2.

hundred sixty basis points (1.60%). Liberty represents that this credit spread is equal to the average credit spread of LUC's recent 10-year and 20-year private placement notes issued on March 24, 2017, which were issued at credit spreads of one hundred forty five (1.45%) and one hundred seventy five basis points (1.75%) respectively. Liberty projects an assumed all-in interest rate for the proposed refinance of 4.12% based on the 15-year U.S. Treasury bond yield of 2.52% as of June 30, 2017, subject to change up to the time of closing.

In terms of the proposed interest rate structure, Liberty represents that the indicative rate for the refinance (4.12%) will be slightly higher than the current rate on its existing debt of 3.51%. Liberty provides two reasons for the rate increase: 1) U.S. Treasury rates are higher now than they were in 2012 (0.76% for the 5-year U.S. Treasury bond in May 2012 compared with 1.95% as of March 2017); and 2) to maintain the debt ladder approved by the Commission in its Order (i.e. debt maturities of 5, 10, and 15 years), the proposed refinancing is for a term of 15 years resulting in a higher rate for a longer term.

The Company provided its Form F-4 dated June 30, 2017, along with an attachment (Attachment MTT-1), to show the impact of the proposed refinancing on Liberty's balance sheet (Exhibit 3), income statement (Exhibit 4), capitalization (Exhibit 5), and cost of debt (Exhibit 6). Liberty estimates the cost of the refinancing to be $17,172 which consists of an issuance fee of fifty basis points.[3] Liberty calculates, on a pro forma basis, that the rate increase will result in an increase in annual interest expense of approximately $20,949 for a total of $1,151,449, as compared with its current interest expense amount of $1,130,500. The combined effect of the debt issuance fee and the increase in interest expense results in a small reduction to Liberty's retained earnings of $13,257; however, total long term debt remains unchanged since no new additional debt is being issued as part of the proposed transaction. As a result, the proposed refinancing has no impact on the Company's current capital structure of 25.2% debt and 74.8% equity. Liberty has calculated a pro forma weighted average cost of debt, post-closing, of 5.97% based on the indicative rate for the refinance of 4.12%, as compared with the Company's current cost of debt of 5.90%.

Liberty also submitted a request for waivers of Puc 308.12(b)(5), (7), and (9), and because, as explained in its filing, no new debt is being issued and the associated rule provisions apply to financing methods other than the issuance of long term debt, those sections of the rule are inapplicable.

Staff's Recommendation

Staff has reviewed the Company's petition and supporting documents and believes that, if the Commission were to grant the requested waivers, Liberty's filing is complete and meets all requirements of Puc 308.12. It is Staff's opinion that, based on the total outstanding long term debt reported by Liberty of approximately $32 million, the

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[3] This fee rate is based on and identical to the fee paid by LUC to issue its most recent series of private placement notes totaling $750 million on March 24, 2017. Timpe at Bates 6.

proposed refinancing of existing debt in the amount of $3,434,343.43 will have no impact on Liberty's capital structure, and a negligible impact on the Company's cost of debt and revenue requirement. Given the long term nature of Liberty's assets, Staff supports the Company's position that continuing with the originally approved debt maturity ladder, which utilized 5, 10, and 15-year tranches, is an appropriate financing structure to maintain. As such, Staff supports the Company's position that approval of the petition would be in the public good, and in conformance with the review standards of RSA Chapter 369. Therefore, Staff recommends that the Commission grant the requested waivers and authorize Liberty to issue $3,434,343.43 in new intercompany debt, according to the proposed terms and interest rate outlined above, for the purposes of refinancing and replacing its existing intercompany debt in the same amount maturing on December 20, 2017. Staff would support the issuance of an Order *Nisi* for the approval of this petition.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**