

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: December 4, 2020

AT (OFFICE): NHPUC

FROM: Jay E. Dudley, Utilities Analyst IV

SUBJECT: DE 18-171 Petition of New Hampshire Transmission, LLC for Approval of Financing: Extension of Financing Authorization Period

TO: Commission
Debra A. Howland, Executive Director

CC: Tom Frantz, Director Electric Division
David Wiesner, Director Legal Division

On November 5, 2020, New Hampshire Transmission, LLC (NHT or Company) filed a petition with the New Hampshire Public Utilities Commission for authority to extend for two years the financing authorization period under an existing loan agreement previously approved by the Commission in this docket on December 21, 2018 in Order No. 26,204. Under the Commission's 2018 Order, NHT was authorized to enter into the "Third Amended and Restated Loan Agreement" (Loan Agreement) with NextEra Energy Capital Holdings, Inc. (Next Era Capital)¹ to issue long term debt and secured debt securities not to exceed an aggregate principal amount of \$59 million over a two year period beginning January 1, 2019 (Authorization Period). The Company's petition requests that the Authorization Period be extended for an additional two years until January 1, 2023. Staff recommends that the petition be approved as submitted.

Description of Proposed Financing

NHT proposes to issue up to \$59 million in aggregate principal amount long term debt in the form of secured debt securities (the Loans) during the period from the date of the Commission's order in this docket through January 1, 2023. Under the terms of the financing approved by the Commission in 2018, the principal amount of total borrowings, including existing obligations and new loans, was not to exceed \$80.6 million, which included the outstanding principal balance of existing obligations (at that time) of \$21.6 million, leaving a remaining balance available for new loans of \$59 million. In the two

¹ As explained in the November 5, 2020 *Petition for Extension of Financing Related to Seabrook Substation*, NHT is a wholly-owned subsidiary of NextEra Energy Transmission, LLC, which is a wholly-owned subsidiary of NextEra Energy Infrastructure, LLC, itself a wholly-owned subsidiary of NextEra Energy Capital Holdings, Inc., which is a wholly-owned subsidiary of NextEra Energy, Inc. In May 2010, the shareholders of FPL Group Capital voted to change the name of the company to NextEra Energy, Inc. See Order 25,955 (October 21, 2016).

years since the Commission's approval of the 2018 financing request, NHT has issued approximately \$13.7 million in long term debt, out of the total credit available of \$59 million, leaving a remaining available balance of \$45.3 million. NHT will use the proceeds of the Loans to complete the Company's ongoing multi-phase solution to address concerns related to aging infrastructure at the Seabrook Substation, including like-kind replacements of horizontal gas-insulated conductors, circuit breakers, insulators, and to support other capital costs and operating expenditures including potential costs associated with NHT's interconnection facilities with the Seabrook Nuclear Generating Station.

Accordingly, the Company seeks authority to: (i) extend the Authorization Period under the existing Loan Agreement for an additional two years until January 1, 2023, in a total amount not to exceed \$59 million under existing terms and conditions, and (ii) to fund, in part, approximately \$45.3 million in upgrades associated with the completion of a multi-phased solution to address aging infrastructure at the Seabrook Substation. As result, the remainder portion of the total request, approximately \$45.3 million, constitutes new debt to the Company. The maturity of the Loans will range from 1 to 30 years and the Company proposes to price the Loans at fixed rates based on the comparable maturities and rates of U.S. Treasury bonds plus a credit spread not to exceed two hundred and thirty two basis points (2.32 percent). Under the terms of the Loan Agreement, the Loans will continue to be secured by a pledge of NHT's revenues and all of its assets. Because the Loans constitute an inter-company transaction, the request for financing does not involve public issuance or private placement; therefore, the issuance is not subject to federal laws and there are no loan documents or issuance documents available for review except for the Loan Agreement. NHT has no retail customers and no retail rates in New Hampshire. As such, NHT only has tariffed transmission rates which come under the jurisdiction of the Federal Energy Regulatory Commission (FERC). Concurrent with the present filing with the PUC, NHT has filed a near identical petition for financing with FERC.²

The Company provided its Form F-4 dated June 30, 2020, along with attachments to show the impact, on a pro forma basis, of the proposed financing on NHT's balance sheet (Exhibit C), income statement (Exhibit D), and cash flow/debt service coverage (Exhibit E). However, as noted above, NHT did not provide promissory notes, associated loan documents, or a statement of capitalization ratios since the Company represents that such documentation is inapplicable given that the proposed loan transaction constitutes a loan from an affiliated company.³

Upon review, Staff concludes that the filing represents a routine financing request. However, it is important to note that as discussed in Staff's recommendations involving NHT's prior financing requests, Staff views NHT's request for financing

² See November 5, 2020 Petition, Exhibit 3 (*NHL's Application for Authorization of Issuance of Long-Term Debt Securities Under Section 204 of the Federal Power Act and Request for Expedited Consideration*, Docket No. ES21-1, filed October 9, 2020. As of the date of Staff's memorandum, the FERC has not yet issued a decision in that docket.

³ See November 5, 2020 Petition, para 12.

differently than it does a "typical" petition from a fully regulated electric utility.⁴ Fully regulated utility financings have implications to the utility's capital structure, cost of capital, and revenue requirements that directly impact ratepayers. In this case, however, even though the financing still affects the Company's financial condition, because NHT is a transmission utility, the resulting revenue requirements and customer rates fall under the purview of the FERC and not under that of the Commission. As a result, the Company's pro-forma capital structure was not specifically delineated as part of this filing. Nevertheless, based on Staff's review and calculations involving the pro-forma financial statements provided, it is apparent that the Company's proposed financing will not have a significant impact on NHT's current capital structure of 44% debt and 56% equity, resulting in a projected 40% debt and 60% equity after factoring in the new debt combined with additional injections of equity from the parent company in the amount of \$70 million. Likewise, the effect of the increase in interest expense in the amount of \$3.3 million has a negligible impact on NHT's retained earnings after giving effect to the resulting pro forma adjustments involving projected increases in operating revenue and additional paid-in capital. The Company's resulting interest coverage ratio is projected to be 3.14:1, as compared to the current interest coverage ratio of 3.72:1. In addition, given that the proposed financing represents inter-company debt, there are no bond issuance fees or ratings fees associated with the Loans. Staff agrees that certain Form F-4 documentation is inapplicable for the reason stated by the Company.

Staff's Recommendation

Staff has reviewed the Company's petition and supporting documents and believes that NHT's filing is complete and meets all requirements of Puc 308.12. Accordingly, it is Staff's opinion that, based on the current total of outstanding long term debt reported by the Company of approximately \$34.2 million, plus new proposed debt of \$45.3 million, the requested financing will not have a significant impact on NHT's capital structure, and the Company's cost of debt and revenue requirement. 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 and continues to be in accordance with the terms of the settlement agreement approved in Order 24,321, as stated in Order 26,204. Therefore, Staff recommends that the Commission authorize NHT to issue long term debt and secured debt securities not to exceed an aggregate principal amount of \$59 million over a two year period beginning January 1, 2021, according to the proposed terms, amounts, and interest rate outlined above, for the purposes of funding planned capital expenditures for 2021 through 2022.

Staff would support the issuance of an Order *Nisi* for the approval of this petition.

⁴ See Docket No. DE 13-138, *New Hampshire Transmission, LLC Petition for Approval of Financing*, Staff Recommendation filed July 22, 2013 at 3 and Order No 25, 556 (July 30, 2013) at 4 and Docket No. DE 16-813, *New Hampshire Transmission LLC, Petition for Approval of Financing*, Staff Recommendation filed October 12, 2016 at 3 and see Order No. 25,955 (October 21, 2016).

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