STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

November 29, 2022 - 9:01 a.m.
21 South Fruit Street
Suite 10
Concord, NH

RE: **DE 22-049**
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY:
Petition for Approval of Financing Transaction.

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Commissioner Carleton B. Simpson

Alexander Speidel, Esq.
(PUC Legal Advisor)

Doreen Borden, Clerk

APPEARANCES: **Reptg. Public Service Co. of New Hampshire d/b/a Eversource Energy:**
Jessica Buno Ralston, Esq.
(Keegan Werlin)

Reptg. New Hampshire Dept. of Energy:
Matthew C. Young, Esq.
Jay Dudley, Electric Group
Scott Balise, Electric Group
(Regulatory Support Division)

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

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WITNESS PANEL: EMELIE G. O'NEIL
MICHAEL J. DZIALO
MARISA B. PARUTA
JAY E. DUDLEY

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E X H I B I T S

EXHIBIT NO.	**D E S C R I P T I O N**	**PAGE NO.**
1	Prefiled Testimony and Supporting Attachments of Emilie G. O'Neil and Michael J. Dzialo *(08-24-22)*	*premarked*
2	Direct Supplemental Testimony and Supporting Attachments of Emilie G. O'Neil and Michael J. Dzialo *(10-11-22)*	*premarked*
3	Department of Energy Technical Statement of Scott T. Balise and Jay E. Dudley *(10-28-22)*	*premarked*
4	Vermont Public Utility Commission Order Consenting to Debt Issuance and Property Mortgage issued in Case No. 22-3900-PET on Nov. 9, 2022	*premarked*
5	**RESERVED FOR RECORD REQUEST** *(Please quantify the impact on the rate base off this financing in this docket using historical rate base as of Sept. 30, 2022)*	71, 73

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning. This is the hearing for Docket DE 22-049, the Eversource Financing Petition, which was originally filed on August 24th, 2022, and updated by a supplemental Eversource filing, with supplemental testimony, on October 11th, 2022.

Eversource has submitted the original Petition, with supporting attachments, as "Exhibit 1", with supplemental testimony and attachments as Hearing "Exhibit 2". The New Hampshire Department of Energy filed a Technical Statement in support of Eversource's Petition on October 28th, 2022, which has been marked for submission as Hearing "Exhibit 3". There's also a Vermont Public Utilities Commission order that has been marked for submission as Hearing "Exhibit 4".

The reason that the Commission convened this hearing today was to accommodate a further review of Eversource's Petition and supplemental submissions, and the DOE Technical Statement.

We plan to issue a final decisional order on this matter within the next two weeks, which would be within the contemplated timeline set forth by Eversource in its Petition for execution of the proposed financing.

Before the witnesses are sworn in, which we presume would be part of a joint DOE/Eversource panel, are there any opening statements or other matters that require addressing this morning?

MR. YOUNG: Not from us.

CHAIRMAN GOLDNER: Okay. And I notice that we have four witnesses, including Mr. Dudley. But, given the size of the box, we'll just -- everyone will be a panel, but Mr. Dudley will sit outside the box?

MR. YOUNG: Yes.

CHAIRMAN GOLDNER: Okay. Very good. Thank you.

Okay. Yes, Ms. Ralston?

MS. RALSTON: Oh, nothing. Nothing.

CHAIRMAN GOLDNER: Sorry, Attorney Ralston. Okay. Very good. Let's swear in the witnesses.

(Whereupon ***Emilie G. O'Neil***, ***Michael J. Dzialo***, ***Marisa B. Paruta***, and ***Jay E. Dudley*** were duly sworn by the Court Reporter.)

CHAIRMAN GOLDNER: Okay. We'll begin with the Company.

MS. RALSTON: Okay. Thank you. Good morning. And I have a few standard questions, obviously. And then, if it would be helpful to the Commission, I have about a handful of substantive questions that would just provide some background, if that would be acceptable?

CHAIRMAN GOLDNER: Very good. Thank you.

MS. RALSTON: Okay. Thank you.

EMILIE G. O'NEIL, SWORN

MICHAEL J. DZIALO, SWORN

MARISA B. PARUTA, SWORN

JAY E. DUDLEY, SWORN

DIRECT EXAMINATION

BY MS. RALSTON:

Q So, I'll begin with you, Ms. O'Neil. Can you please state your name, title, and you role at PSNH?

A (O'Neil) I'd be happy to. My name is Emilie O'Neil. I am the Assistant Treasurer and

Director of Corporate Finance and Cash Management at PSNH. My main responsibilities are the development and implementation of financing plans, lease financing, cash management, and capital structure analysis.

Q And have you ever testified before this Commission?

A (O'Neil) I have.

Q And did you file testimony and corresponding attachments on August 24th, marked as "Exhibit 1", and supplemental testimony and attachments on October 11th, 2022, marked as "Exhibit 2"?

A (O'Neil) I did.

Q And were the testimony and supporting materials prepared by you or at your direction?

A (O'Neil) Yes, it was.

Q And do you have any changes or updates to make at this time?

A (O'Neil) No, I don't.

Q And do you adopt your testimony today as it was written and filed?

A (O'Neil) Yes, I do.

Q Thank you. Mr. Dzialo, can you please state your name and title at PSNH?

A (Dzialo) My name is Mike Dzialo. I'm a Senior Analyst in the Corporate Finance and Cash Management group of Eversource Energy Service Company.

Q And what are your responsibilities in this role?

A (Dzialo) My primary responsibilities include supporting the development and implementation of long-term financing plans.

Q And have you ever testified before this Commission?

A (Dzialo) I filed written testimony in three previous financing dockets.

Q And did you file testimony and corresponding attachments on August 24th, 2022, that have been marked as "Exhibit 1", and supplemental testimony and attachments on October 11th, 2022, that are marked as "Exhibit 2"?

A (Dzialo) Yes.

Q And were the testimony and supporting materials prepared by you or at your direction?

A (Dzialo) Yes.

Q And do you have any changes or updates to make at this time?

A (Dzialo) No, I don't.

Q Do you adopt your testimony today as it was written and filed?
A (Dzialo) Yes, I do.
Q Thank you. And, finally, Ms. Paruta, can you please state your name and title?
A (Paruta) Yes, of course. Good morning, everyone. My name is Marisa Paruta. And I am the Director of Revenue Requirements for our New Hampshire electric utility company and our Connecticut electric and natural gas companies.
Q And what are your responsibilities in that role with respect to PSNH?
A (Paruta) With respect to PSNH, my role requires that I -- I have oversight of all revenue requirements and rate impacts for our customers, as well as any concerns that would ultimately result in a future revenue requirement.
Q And have you ever testified before this Commission?
A (Paruta) Yes, I have.
Q And did you file any written testimony in this docket?
A (Paruta) I did not. But I will say that the decision was made for me to be here today, in

case there were any questions from the Commissioners that related to impacts to customers' rates, revenue requirements, or carrying charges.

Q Thank you. Ms. O'Neil, could you please explain the process that PSNH uses to determine how and when to issue debt?

A (O'Neil) I'd be happy to. The Company manages its cash on a daily basis. If the amount of money coming in from customers falls short of the amount of money the Company needs to pay out for items such as purchase power, capital expenditures, and taxes, then the Company borrows short-term debt.

The Company's short-term debt limit authorization from its Board of Directors is 300 million. PSNH looks at the Company's current short-term debt balance and the forecasted short-term debt balance, and begins the process to issue long-term debt when that limit is being approached.

Q Thank you. Is issuing mortgage bonds the least costly to obtain this financing, and, if so, could you explain why?

A (O'Neil) Yes. It is. If a company only has first mortgage bonds outstanding, then issuing secured, versus unsecured debt, will be the least expensive option. When a company issues first mortgage bonds, the debt is collateralized by property. Investors are willing to pay less for those bonds, given that they have collateral. Because, if there is any kind of default on the bonds, we certainly do not anticipate that this would happen, I'm just trying to explain why first mortgage bonds could be cheaper than unsecured debt, which has no recourse.

Q Thank you. And could you also briefly explain why a $600 million financing is considered "routine", and what that figure is based on?

A (O'Neil) Of course. The Company generally files a financing petition annually. This financing is routine, because the terms we are asking the Commission to approve are consistent with other approved routine financings of the Company, the terms are reasonable and least cost, and the funds are to enable the ordinary course of utility operations.

This is consistent with the basis the

Commission has used to approve previous financings. The following criteria of the financings support that this financing is routine: A maturity of up to 30 years, spread of up to 400 basis points, use of proceeds to pay down short-term debt, refinance long-term debt, and to finance capital expenditures. The $600 million amount is reasonable, that PSNH will have a maturing long-term debt of 325 million in 2023. And we will have approximately 500 million of projected capital expenditures, which includes both transmission and distribution. And short-term debt balances are forecasted to approach the $300 million mark in very early 2023, primarily driven by capital expenditures.

The financing plan will have minimal impact on capitalization. Short-term debt will be refinanced with long-term debt. And the Company will continue to target an appropriate regulatory equity ratio in its capital structure in order to help maintain its current ratings.

Q Thank you. Ms. Paruta, how would this financing impact base rates for customers, compared to past financings of the Company?

A (Paruta) The financing is routine and typical, as we have ordinarily done, in terms of base rates. It will not have an immediate impact to customers' base rates. The next time, should this financing be approved and Eversource were to issue the debt, any impacts to base rates, because we have completed our steps in Docket 19-057, in the last settlement, would not take effect until the next rate case application, and the rates approved in that rate case.

Q And is the Company asking the Commission to approve any specific capital investments?

A (Paruta) Not at all. Really, the purpose of this is we are not seeking for approval with any type of prudency, in terms of the capital investments that will be made as a result of these borrowings.

Q Thank you. And, finally, Ms. O'Neil, why is it imperative that the Company receive timely approval of this financing? What would happen if the Commission did not approve or only partially approved this request?

A (O'Neil) Well, as I mentioned previously, the Company's forecast shows that our short-term debt balances will be, you know, approaching the $300 million cap in early 2023. And, if the Commission did not approve the $600 million number, there would be some immediate negative repercussions to the Company's creditworthiness. So, what could happen, one possibility is that PSNH wouldn't have enough money to refinance our upcoming $325 million bond maturity. This would cause a domino effect, beginning with a default on the bonds and an instant deterioration of PSNH's credit rating, causing the Company's borrowing costs to increase dramatically, which would, in turn, cause an increase in the interest charges the customers would ultimately pay.

Additionally, if the Company doesn't get the full 600 million approved, there would be insufficient funding to both cover debt and maintain infrastructure planning operations.

MS. RALSTON: Thank you. The witnesses are now available for cross-examination.

CHAIRMAN GOLDNER: Okay. Thank you.

Attorney Young, would you have anything you'd like to add?

MR. YOUNG: The Department has no

questions at this time. But Mr. Dudley is available for Commission questions as well.

CHAIRMAN GOLDNER: Okay. Very good. We'll begin with Commissioner questions, and Commissioner Simpson.

CMSR. SIMPSON: Thank you, Mr. Chairman. Thank you for being hearing today.

So, I'm just the lawyer and the engineer here. So, I'm -- it's not an enviable position, when I have a Ph.D in Economics and an MBA who will go after me. So, I'm sure they will have some questions specific about the financing and treasury aspects.

BY CMSR. SIMPSON:

Q As a general question, if we could start off with, could you just explain how the market conditions have changed since you initially filed this Petition in August? How the interest rates and treasury amounts have changed, and how that's impacted your Petition and your plans out until the end of 2023?

A (O'Neil) Okay. That's a great question. The market has changed; rates have increased. Treasury rates have increased since we initially filed our Petition.

It should not have any impact on the filing. We are not -- we're asking for a spread of up to four -- the ability to issue a spread up to 400 basis points. Obviously, our goal is to minimize that spread as much as possible to protect customers. But interest rates have -- Treasuries have increased since the Petition.

Q And that 400 basis point spread, is that atypically wide from what you would typically request in one of these routine petitions for refinancing?

A (O'Neil) No, it's not. This is what we have requested in the past. And, if I can just tell you, I know that last time around we requested 400, and the spread that we issued was significantly less than the 400.

Q Okay. And you would envision, in your experience, that it would be a similar -- what you end up with will be similarly narrow as history would dictate?

A (O'Neil) I would certainly expect that the spread would be below the 400 basis points.

Q Uh-huh.

A (O'Neil) The reason why we're asking for 400, up -- and I shouldn't say "400", up to 400, which is similar to what we have asked the Commission in past petitions, is because the market is very volatile, and there's a lot of geopolitical issues going on right now. So, given that, we do have that maturity, and we do have Capex, we would like the flexibility to go up to the 400, but I certainly do not envision even approaching that number.

Q Okay. Thank you.

A (O'Neil) You're welcome.

Q I was interested in some of the ratings agencies' reports that we had seen as attached in the Technical Statement from the Department of Energy, which was very well done. Thank you for that.

So, I'm looking at Exhibit 3. And perhaps, from your point of view, you know, running Treasury on a day-to-day basis, cash management, explain how you look at these rating agency reports? When they come out, how does that impact your decision-making? What are the key findings that you look for, and that would be of interest to you, in your role at the Company?

A (O'Neil) Okay. First of all, I would like to say that I am the primary person dealing with the rating agencies. And I speak with the rating agencies at least -- at least monthly, if not more than monthly.

Q Uh-huh.

A (O'Neil) I keep them up-to-date on the Company. I address whatever concerns they may have. So, we actually have, I would actually say, sort of a partnership. So, nothing is ever a surprise either way.

And then, we do have formal meetings with them in the springtime. And I just met with two of the three at our annual EEI Conference a couple weeks ago.

So, I can tell you, primarily, what the rating agencies look for. They look for -- probably the most important thing they look for is a constructive regulatory environment, that's probably number one. I shouldn't say "probably". That is number one.

The other thing they look for is how that regulatory environment affects the financial ratios. And the financial ratio that's most important to them is the FFO-to-debt ratio.

Q And, in your testimony, you describe that this financing would not have a material impact on that ratio, correct?

A (O'Neil) Absolutely correct. That's right.

Q And explain how you manage the business day-to-day, in order to maintain a relatively consistent FFO?

A (O'Neil) Okay. So, basically, the FFO-to-debt, so, the numerator would really be sort of your -- sort of your internal, normal cash from operations. Your denominator would be your debt.

Q Uh-huh. Okay. So, one of the elements that was identified in several of these reports, with respect to risk associated with Eversource Energy Corporate, is the Company's interest in the Ørsted offshore wind venture, and how the rating agencies have viewed those investments as riskier, compared to your regulated energy delivery businesses in the various states. And they mention that it seems as if the Company has indicated that you're exploring a sale of those assets in that joint venture. Am I understanding that correctly?

A (O'Neil) You're understanding it totally correctly. We are undertaking a strategic review --

Q Uh-huh.

A (O'Neil) -- to sell our investments in our wind assets.

Q Uh-huh. Because it's an interesting aspect of your enterprise, given that all of the states in which you have regulated businesses are restructured states. Only a few years ago the Company divested of all of its generation here in New Hampshire. And, presumably, some of those assets would be contracted for by the states in which you do business as regulated entities, or would certainly -- some of that output would be part of the ISO-New England electric grid.

Do you have any -- any thoughts for us to consider how those investments have changed the terms and rates upon which the market is willing to offer to the Company at this time in the financial markets? How has that impacted the Company's bottom line and results, looking to gain capital from the market?

A (O'Neil) And, when you refer to "the Company", we're talking about PSNH?

Q I think I'm speaking a bit more generally. But, if you would be able to articulate a more direct impact to PSNH, in addition to Eversource Corporate, that would be helpful?

A (O'Neil) Okay. I don't really think it's had an impact on PSNH.

In terms of Eversource, I would say that it really hasn't had much of an impact on Eversource. I can't say it hasn't had zero, because I don't know if that's true.

Q Uh-huh.

A (O'Neil) But, if it has any impact at all, it will only have been on the holding company, and not on the utilities.

Q Okay. You mention that one of the main things that these agencies look for is the "regulatory environment". And there were multiple instances that I noticed in these reports of your regulatory profile, and some of the mechanisms that you have or do not have in place, like revenue decoupling.

And maybe Ms. Paruta would be able to

speak to that. How does that impact the entities that would loan you money or would buy your bonds or issue you debt? When they look at these reports, what do they weigh?
A (O'Neil) Okay, maybe I can begin, and if Marisa wants to add anything?
Q Please.
A (O'Neil) Okay. So, --
Q Trying to be collaborative here.
A (O'Neil) Okay. Very good.
Q So, get on the record with that.
A (O'Neil) So, there are many things that go into a company's rating. As I mentioned, there's the regulatory environment; the ability to -- the ability to earn allowed returns; capital structure, the equity ratio; the ability to -- I mean, trackers would be another one, so able to recover -- the ability to be able to recover costs quickly; those, as well as your metrics.

So, I would say investors are very savvy in the public market, and PSNH does issue in the public market. Investors are very smart. And what they do is they absolutely do look at the reports, and they certainly look at the rating, to determine whether or not they want to invest.

But not all companies that have the same rating necessarily issue at exactly the same spread. So, there's, you know, there are some nuances that go in with that.

I can tell you that PSNH is thought of very, very highly in the financial markets.

Q It seems that that subsidiary of Eversource is even more favorably viewed than Eversource, in total?

A (O'Neil) Well, yes. I mean, the answer to your question, yes. If PSNH was going to go out and issue bonds today and Eversource was going to issue bonds today, PSNH would issue at a lower cost than Eversource.

Q Why do you think that is?

A (O'Neil) Well, first of all, PSNH's ratings are better than Eversource. That's one reason. The other reason is, PSNH issues secure debt. They issue first mortgage bonds; Eversource issues unsecure debt.

Q And what elements of Public Service Company of New Hampshire's business leads to higher ratings than Eversource Corporate?

A (O'Neil) Well, the reason why the rating is higher at PSNH than at Eversource, is Eversource is really a combination of all the utilities, as well as there's some wind factored in there. Some of -- "some of our nonregulated" is factored in there as well.

PSNH is a -- it's a clean, highly-rated utility, that is -- that is regulated.

Q Uh-huh. Okay. So, in the reports, it was noted that, if the Company did divest of their wind investments, the proceeds would be used to fund investments in your regulated businesses. Did I understand that correctly from the agencies?

A (O'Neil) You do. So, it would be a combination of putting that money back into our regulated utilities, in terms of investments, as well as a paydown of debt at the Eversource level.

Q So, presumably, the investments that the Company has made have been made below-the-line of -- outside of your regulated businesses, correct?

A (O'Neil) You're saying in our wind business?

Q Yes.

A (O'Neil) Oh, it has not been made by any of the utilities. It's been made solely at the parent level.

Q Uh-huh. So, then, how would you manage that, those cash flows, that you'd have money from the parent, and then you'd --

A (O'Neil) In terms of the proceeds?

Q Correct.

A (O'Neil) Okay. So, we have a non -- we have an unregulated entity, it's called "Eversource Investment, LLC". And that is the entity that really makes the capital calls on the wind investments.

Q Uh-huh.

A (O'Neil) And that entity has been borrowing from the parent. So, not from any of the utilities, it's purely been borrowing from the parent. So, what would happen is, the money would come in from the sale, it would go into EI, LLC, and they would pay off their debt that they owed to the parent.

Q Okay.

A (O'Neil) Then, in turn, the parent would be able to, you know, through equity contributions, in order to maintain the capital structure, an appropriate capital structure at each of the entities, at each of the utilities, they could use the money to pay down their own debt, as well as to infuse capital.

Q Okay. Thank you.

A (O'Neil) You're welcome.

Q I have a few questions that might seem arduous, but I just want to confirm some figures that would be relevant for us in a decision. So, just if you could state whether I've stated them correctly, that would be helpful for us, okay?

So, you are looking to borrow 600 million through the issuance of long-term debt securities through December 31st, 2022, correct?

A (O'Neil) No. Through December 31st, 2023.

Q Okay. And then, on the basis of the figures you provided on October 11th, 2022, which reflected the recent trend of increased interest rates, the Company has estimated the long-term debt issuance to be 7.12 million, correct?

A (Dzialo) Could you --

Q Repeat that?

A (Dzialo) Can you repeat that please?

Q So, your estimated long-term debt issuance, 7.12 million?

A (O'Neil) When you say "issuance", you mean "issuance costs"? "Cost of issuance"?

Q Yes.

A (O'Neil) Oh, "cost of issuance"? Please give us a second.

Q Yes. Take your time.

[Short pause.]

BY CMSR. SIMPSON:

Q And that would include ratings fees and the underwriting fee of 0.875 percent?

A (O'Neil) That is correct.

Q Okay. And then, you calculated on a *pro forma* basis that you'll issue new debt of 178.58 million, correct? And take your time.

A (O'Neil) Could you please tell me what exhibit you're referring to?

CMSR. SIMPSON: Just a moment, I want to talk to my attorney.

[Cmsr. Simpson conferring with Atty. Speidel.]

BY CMSR. SIMPSON:

Q So, we identified this from the Department of

Energy's Technical Statement, which is Bates -- or, excuse me, Exhibit 3, Bates 001. I'm really looking at this "Description of the Proposed Financing" summary.

A (Dzialo) Your number was "268.1", correct?

Q My number that I stated was -- so, new debt, the new debt figure of "178.58 million", that was the number that I was looking for clarification for initially.

A (O'Neil) I think -- I think the number that you're referring to is, that is the PP&E number from the balance sheet.

A (Dudley) Commissioner Simpson, could I please help?

Q Yes. Thank you.

A (Dudley) So, on Bates Page 015 of Exhibit 3, and they provide a breakout at the top of the page. You see that, it's broken out into Sections (a), (b), and (c), which is the backup for most of their calculations. And, if you look at, in (a), the first line is "185,700". That's on Bates Page 015 of Exhibit 3. And that's the net proceeds, after everything else is paid, except for the 7.12 million in issuance costs.

Q And the 185.7, minus the 7.12, yields the 178.58, correct?

A (Dudley) Correct. Yes.

Q Okay. And can the Company confirm that? We just want to make sure that we understand the final figures. That's what we're trying to confirm here.

A (Dzialo) Agreed.

Q Okay. So, then, you want to refinance 89.3 million in short-term debt and 325 million in long-term debt, correct?

A (O'Neil) That is the number. The short-term debt number was the short-term debt number at the time. So, what we will do is we will first refinance whatever short-term debt is out there, and then the maturities later in the year.

Q Uh-huh.

A (O'Neil) So, then, we will build back some short-term debt as well. And, so, we plan two financings next year; one early in the year that will most likely go for capital expenditures and the reduction of short-term debt, --

Q Uh-huh.

A (O'Neil) -- and the one later in the year will go to refinance the maturity.

Q So, do you have a sense of where your short-term debt is today?

A (O'Neil) I can tell you that, as of a few days ago, it was at 100 million, and it's growing from there.

Q And you intend to refinance all of that or a portion of that?

A (O'Neil) I intend, our first issuance, I would intend to refinance all of it.

Q And at the balance at that time?

A (O'Neil) Exactly.

Q Okay.

A (O'Neil) The balance at the time. And then, the rest would be used to pay for capital expenditures.

Q Okay. And then, long-term debt, 325 million, that's what you sought here?

A (O'Neil) That is correct.

Q Okay. Thank you. And your annual interest expenses that you provided were approximately 18.9 million, correct? In addition, which would make your total interest expenses 75.8 million?

A (O'Neil) Well, there would be -- the new issuance would have interest expense associated. But we're going to be getting rid of the 325, so that goes away. And what also goes away is the interest on the short-term debt.

Q All right. Let's go back to Exhibit 3, Bates 002, or -- yes, Bates 002. So -- and perhaps Mr. Dudley would be able to help here. So, this will result in an increase in annual interest expense of approximately 18.9 million, for a total of 75.8 million, as opposed to -- as compared to -- compared with, pardon me, its current total interest expense of 56.9 million? This is what we're trying to confirm.

A (Dudley) Yes. And that, Commissioner Simpson, that is on Bates Page 016, which is the income statement, which has been proformed. It's important for us to keep in mind that these are proformed numbers. But that that's what's reflected, *pro forma*, on Bates Page 016.

Q Okay. And can the Company confirm those figures?

A (O'Neil) That is correct.

Q Okay. Great. Thank you. And your 325 million of long-term that you currently want to refinance, that's at three and a half (3.50)

percent, First Mortgage Bonds, Series S, and they're due November 1st, 2023, correct?
A (O'Neil) That is correct.
Q Okay. And your proposed construction budget for 2022, that's approximately 134.6 million associated with capital improvements to the distribution system, correct, 134.6, distribution system?
A (O'Neil) In which year? 2022, you're asking?
Q Yes.
A (O'Neil) That's correct.
Q And then, 273.3 million in capital improvements to the transmission system, correct?
A (O'Neil) That's correct.

CMSR. SIMPSON: Excellent. Okay. Thank you.

WITNESS O'NEIL: You're welcome.

CMSR. SIMPSON: Just wanted to make sure we have all the figures right. And we did have a correction or two there, so time well spent.

I don't have any further questions for these witnesses, Mr. Chairman. Thank you.

CHAIRMAN GOLDNER: Thank you. We'll

move to Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Good morning. So, my questions will be more overarching.

BY CMSR. CHATTOPADHYAY:

Q And, so, the first question I have is, you mentioned that you do these financing annually. Do you do it every year like that? Or do you make a call, like "Okay, this year we need to do it"?

A (O'Neil) I can't say that we do it 100 percent of the time every year. But, generally, in general, we come in with a one-year financing plan.

Q When was it done the last time? Was it last year?

A (Dudley) Commissioner Chattopadhyay, that would be Docket DE 21-060. And that was last year, yes.

Q You said -- I'm just trying to confirm, you said "21-060"?

A (Dudley) Correct. Yes.

Q Okay. How much did you finance at that time? Or at least the petition at that time, and what was approved?

A (O'Neil) 350 million; and 350 million was approved.

Q You said this is a "routine" financing. Can you give me a sense of, in terms of the dollar amount, 600 million, relative to the kind of financing you have done in the previous years, would you consider that to be "routine" in the sense of the level or --

A (O'Neil) Well, it's going to depend on the long-term debt that's maturing. Okay? So, this is 600 million that's being driven by the $325 million long-term debt issuance. So, if we have less long-term debt maturing, the petition would be smaller. If we have more than 325, the petition would have been larger.

Q That is helpful. Okay. You also mention that the 400 basis points credit spread, that is "routine". Can you give me a sense of how routine is it? Like, was that spread also used last time around? And is it -- and how far back can you go that you've been using the 400 basis points?

A (O'Neil) It certainly was used last time around. I would have to go back to prior dockets to see what was used prior. But I would be -- I'd have to go back to prior dockets. And, if there was a number that was lower than that, it wouldn't have been substantially lower. The last time around it was absolutely 400.

A (Dudley) Commissioner Chattopadhyay, I've worked on at least the last four financings. And they have used that as their cushion, 4.00 percent.

Q And you are indicating that over the last -- you said five or six times, they have used that?

A (Dudley) Yes, they have. And, subject to check, but, based on my memory, that stems from the rate spikes that occurred in 2009-2010, as a result of the credit crisis at that time. There was a -- there was a brief spike in rates, it went up dramatically, and not only in base rates, but also in credit spreads. And, so, their ballpark figure, their approximation is based on their experience in that period of time. Just to ensure that they have enough headroom, in case something, you know, really unusual happens in the market.

Q So, let's consider an unusual situation. Let's say the spread goes beyond 400 basis points, okay?

A (O'Neil) Uh-huh.

Q What happens?

A (O'Neil) We come back to the Commission and ask for approval for a different spread.

A (Dudley) Commissioner, just based on my experience with finance, in general, and with the rating agencies, something would have to break quite substantially in order for that to happen, which would cause the rating agencies to increase the credit spread, and recommend an increased credit spread. And that would be something major, in terms of Eversource's finances, financial condition.

Q And this question is for anyone who can answer it, you know, and including DOE's witness, I think. Do you remember what the credit spread at max has been? I mean, I know that, in the filing here, you show, to the best of my recollection, it's 280 basis points or something like that. But can you -- can you give me a sense of over the last, let's say, 10 years?

A (O'Neil) Well, I can tell you that, at the beginning of COVID, that the market was shut. So, under no circumstances, for a few days, utilities couldn't issue at the beginning of COVID. So, no matter what the spread was, utilities had to -- all companies had to stand back and couldn't issue debt.

It also happened during the 2008 financial crisis, that the market was shut. So, in some sense, you can almost say the spread is infinity, because the companies weren't able to issue.

A (Dudley) If I could just add to that, Commissioner Chattopadhyay? The credit spreads are a factor of the Company's credit ratings. And we monitor closely the credit spreads. We receive reports from Moody's Investor Services on a weekly basis, to monitor the condition of the market and to see what the credit spreads are.

I can tell you, over the last several years, with rates unusually low, that credit spreads for companies, like Eversource, that had an A+ rating, have been in the range of 1.2, 1.3, maybe 1.5. And, incredibly, even now, they have not wavered all that much.

However, the base rates, in terms of 10-year Treasury, 30-year Treasury, LIBOR, whichever base you want to use, have moved up recently. But, just over the last few years, since the drop in rates in 2011-2012, for A-rated credits, you've been looking at spreads of 1.2, 1.3, 1.4.

Q Okay. Thank you.

A (O'Neil) Are you interested in hearing sort of where current rates -- current spreads are right now?

Q Sure, you can share it. But I'm just -- I've looked at the graph. It looks like the peak was somewhere around 2.8, just around COVID, based on your testimony.

But, yes. Sure. What is it currently?

A (O'Neil) Currently, it's about 1.25, --

Q Okay.

A (O'Neil) -- for a 10-year.

Q Yes.

A (O'Neil) And about 1.55, for a 30-year.

Q Okay.

A (O'Neil) I mean, the "up to 400 basis points" is really sort of an emergency-type situation.

Q As I hear you, it's almost like a safety valve. You're keeping it as high as possible. But to --

that's why I was asking "what happens if it goes beyond 400 basis points?" And you said you "will come back". But what does that mean? Like, coming back, does that create issues for your financing overall? Because there's also the time factor, because you have to come back again and go through the process, what does that do? That was my intent when I asked that question.

So, give us a sense of, you know, and I know that it's a very high bar, but, you know, one might ask "why didn't you keep it at 300 basis points?" So, try to respond to my question here, like, on that basis. Like, why do you want to keep it at 400? Why not 300 basis points?

A (O'Neil) Well, 400 would, obviously, give more flexibility.

Q Yes. Yes. But, so, now address the point that I was making, which is that, if it goes beyond that, what happens? Like, I know you're going to come back. But, overall, what's the financial implications?

A (O'Neil) Well, if our spread goes above 400, --

Q Yes.

A (O'Neil) -- there's going to be a lot of issues.

I mean, very few companies finance as cheaply as PSNH. PSNH has a very, very high rating. So, if, you know, if an A+, you know, First Mortgage Bond spread is 400, then, obviously, there is tremendous issues in the financial market. And it wouldn't happen just all of a sudden. We would see that coming on, and we would prepare. And, certainly, we would get in touch with the Commission, and, you know, ask for permission to exceed that 400.

Q Ultimately, it's about the coupon rate, the interest rate. So, I'm going to ask you a question about -- you said you do financing annually. Do you sort of do it a particular time of the year, or, even that, you have some flexibility deciding "Okay, you know what, given how the markets are behaving, we should probably go ahead and do this, even though the $325 million dollars is going to mature", you said "November 2023, because we are seeing a trend in the interest rates going up"?

Could you have done this financing sooner, because the rates would have been lower? That's --

A (O'Neil) Okay. So, --
Q What is the process that you follow?
A (O'Neil) Okay. So, the process is, we look at several different things. Had we done it sooner, there would have been no way -- we wouldn't have been able to apply the cash. So, I don't want to get out and issue at five and a half percent (5.50), and have it sit in a money market account at a half a percent, because we didn't have enough short-term debt to pay off.
 So, what we do is, we look at sort of where rates are going, the forecasted rates. And, yes, rates have really been going up, more dramatically on the short-term debt side than on the long-term side, but long-term rates have been going up. But, if you look at some forecasts for next year, it may go up a little bit more, but then it's not forecasted to go up that much more during the year.
 So, we will look at -- we'll look at where our short-term debt balances are, we'll look where rates are going. It's likely that we're going to do two issuances next year; one at the very beginning, and then one closer to the

maturity. If we have reason to believe that rates are really going to spike, and say we're sitting here in like May or June, we're not going to wait for the maturity. We would accelerate that financing, absolutely.

Q But, as proposed at this point, you're largely driven by the -- you know, you don't want to hold on to, you know, want to get money that you can't use, that's the idea?

A (O'Neil) Right. If we don't have enough short-term debt to pay off, then it doesn't -- it doesn't make sense to do a financing, and then just have it sit in the bank for months.

Q The yield curve right now is -- it's sort of flat, if you take a look at it.

A (O'Neil) It's even inverted at a particular point, yes.

Q You know, if you look at it today, you'll find it's -- I mean, yes, it may be inverted a little bit. But do you sort of -- do you have people predicting how things might turn out in the future? I'm just curious.

A (O'Neil) So, similar to the way that I'm in constant contact with the rating agencies, I'm in constant contact with all the bankers. And we have several different bankers, well, at least 15 different bankers that work on different deals. And we are constantly getting forecasts from them as to what direction rates are going in now. As we all know, no one can forecast interest rates. But these banks certainly try, and their economists certainly try to do that.

So, yes, we are constantly looking at the yield curve, and also, you know, what I would call is the "forward curve".

Q On the point about "FFO-to-debt ratio"?

A (O'Neil) Yes.

Q Can you give me a sense of, with this financing, you know, that will change a bit, and give me a general sense of what kind of ratio usually is considered comfortable that you'll keep maintaining the credit rating that you have?

Assume that I don't know anything about, you know, the numbers generally, like --

A (O'Neil) No, I'd be happy to do that.

Q Yes.

A (O'Neil) So, in order to maintain the rating that we're at right now, so, at the end of '20, that ratio was 19 percent. At the end of '21, that ratio was 22 percent. You know, at the end of '22, we're expecting it to be, on a forecasted basis, as well as the end of '23, around 21 percent, which is quite comfortable within that rating level.

A (Dudley) Commissioner?

Q Sure.

A (Dudley) Commissioner, where the rating agencies get concerned is when that declines to about 16 or 15 percent. Then, that typically triggers a downgrade for them. But that's the threshold that they have set. And I just happen to have Moody's Rating Methodology with me today. And that's pretty much universal for all three rating agencies, is when FFO starts to decline to about 16, 15 percent, then they get worried. You know, there's something wrong there, something is going on. And, as I said, it typically triggers a downgrade.

Q So, for PSNH, can you give me a sense of where that number has been over the last 10 years, has it ever gone below 15, 16 percent?

A (O'Neil) Over the last 10 years?

Q   Yes.
A   (O'Neil) No.
Q   No. Okay.
A   (O'Neil) It would not have gone below 15 or 16 percent.

CMSR. CHATTOPADHYAY: Okay. Thank you. That's all I have.

CHAIRMAN GOLDNER: Okay. I just have a few questions.

So, first, I'd like to thank the Company and the DOE for the supplemental testimony, the updated dates and spreads, and so forth, that was very helpful for us to see the transition and the movement in the market.

BY CHAIRMAN GOLDNER:

Q   I'll start with sort of a follow-up on the other Commissioners' questions, which is that, you know, you're a very large and sophisticated financial company. And, when you look back at rates over the last couple of years, which were at historic lows, I know other companies, not necessarily monopolies, but other companies' approaches were "Hey, it's free money, it's cheap money. Let's go out and let's chase it. Let's

lock in 30-year rates at very low numbers, and let's capture that value." Tell me more about why PSNH didn't do that?
A (O'Neil) Well, PSNH actually -- well, PSNH has done financings the last few years. They did --
Q You said "350" last year, right?
A (O'Neil) Correct. They did 350 last year. And prior to that, they did a long 30-year, they did, you know, 150, 30 years, prior to that. So, they actually have, the last couple of years, we have done a couple issuances at PSNH, and locked in.
Q Hindsight being 2020, as always, you know, you would wonder "why not do twice as much, three times as much, four times as much, and locking in those really low rates?"
A (O'Neil) Okay.
Q But they were at historic lows. And I know you're a very sophisticated operation. So, I wanted to just maybe explore that concept.
A (O'Neil) Sure. So, we did do an issuance last year and the year before, and locked in those very low rates.

Had we issued three or four times more than that, the customers, even though the rate was lower, would have been low, the customers would have had to pay on a much higher number. So, if we had borrowed like a billion dollars, even if the rate was lower, customers would have to pay for that. And there was no use of cash for that. That would have just sat in the bank. We didn't have use for a billion dollars. So, we don't want to overleverage.

The other reason, which -- the other reason we would never do that is, one, we didn't have a use for the cash. As you know, we did a big securitization that paid down some of the debt. So, one, we didn't have use for the cash. The other reason is, if we want to keep our equity, our capital structure appropriate, essentially where it is now, if we're going to issue a billion of debt, we would have to impute a billion of equity. So, that means the Company would be sitting on $2 billion of cash, with no use. That just wouldn't be prudent financially.

Q Yes. I think that's probably the topic of a future docket, in terms of the future rate cases, and what's the appropriate capital structure and this kind of thing. It's just hard looking at it from the outside, coming from sort of a non-monopoly corporate structure, we would go chase low-interest rates whenever we could find them. So, we would sit on the cash at one or two percent happily, knowing that we would have, you know, long-term rates, you know, locked in, short-term rates locked in, for extended periods of time.

So, I'm just -- I'm just trying to understand, you're in a different business than I was accustomed to, and I'm just trying to understand your point of view?

A (O'Neil) Sure. So, if we had locked in rates, and, yes, they were, and, as I said before, we did lock in rates, we had issuances the last two years. When you think about what the customers would have had to pay, yes, it would have been a low rate, but it would have been on a very high principal. That just doesn't make sense to me.

Q Yes, in the short term. In the short term, for sure. But, if you look at it over a longer term horizon, maybe it looks different? Or, no? You would say, even over a long-term horizon, you would not recommend taking out loans for more than you did?

A (O'Neil) Correct. Because, when you think about it, it's sort of like a negative arbitrage, right? We're taking out loans, let's just say the number is 4 percent. Okay, taking out a loan for 4 percent, and you're earning, you know, 30 basis points in a money market account, so, you're actually, you know, I mean, you're losing money.

Q Well, it's the world of alternatives, isn't it? If you're using it to, in a non-monopolistic, you know, sort of environment, if you're using it to buy back stock, for example, right, then you can make the case that it's money well spent?

A (O'Neil) Potentially, correct. But I'm thinking "PSNH", and I'm not thinking "Eversource". So, PSNH wouldn't be buying back stock.

Q Right. Right. And, without grasping completely the entire corporate structure, I assume that Eversource keeps PSNH as sort of a stand-alone entity, and sort of there's no bridge between those two companies, in terms of money passing back and forth?

A (O'Neil) Well, actually, the only passing of money, and it's not back and forth, it's only one direction, is, once NSTAR merged with Northeast Utilities, obviously, now it's called "Eversource", but what we decided to do in all the -- in mostly all the subsidiary levels is, because Eversource can borrow very, very cheaply in the commercial paper market, much cheaper than any of the utilities can borrow from banks, they actually borrow in the commercial paper market, and they lend to the utilities at their cost, which is a big savings to the utilities.

Now, the utilities cannot lend to Eversource. But Eversource can lend, on a short-term basis, to the utilities.

Q And maybe just to clarify for the room, you mentioned before that, if you're doing a mortgage, that it's cheaper for Eversource, because it's secured debt?

A (O'Neil) It's cheaper for PSNH.

Q PSNH, I'm sorry.

A (O'Neil) Yes.

Q Yes, because it's secured debt. But, in terms of commercial paper, it's cheaper going the other direction, in other words, Eversource is cheaper from a commercial paper perspective. I'm just trying to clarify those two comments.

A (O'Neil) That's exactly right. So, one is in the short term, one is the long term.

Long term, first mortgage bonds, they're collateralized. So, an investor is willing to pay less, because it's collateralized.

In the short term, Eversource borrows commercial paper, which is sort of uncollateralized notes. You can go anywhere from one day to 270 days, on a daily basis, and lends to -- and, if PSNH needs money on a short-term basis, they will take their own rate and they will lend that down to PSNH. If PSNH has excess money, they will send that money to Eversource, and PSNH will pay off its short-term debt.

Q That's very helpful. Thank you. And you're using sort of the classic definition of "long-term debt", meaning "one to thirty years"?

A (O'Neil) Yes.

Q It's often confusing to people that don't think of one year as "long term", but that you're using it in the classic financial sense. So, --

A (O'Neil) That is correct.

Q So, okay. That is very helpful. Thank you. I'd like to go to Exhibit 1, and just make sure that I understand the transaction, or what we're actually talking about here.

On Bates Page -- there's multiple page numbers, but I'll use the largest one, Bates Page 015 in Exhibit 1, which is Page 9 on the filing from Eversource. There's a "Figure B" there that has a "Historical 30-year Yield of 'A' rated Utilities". I think that that chart represents the combination of the 30-year Treasury, plus the spread at that time. Is that what that chart is showing me?

A (O'Neil) That is correct. So, if you're -- you're referring to "Figure B"?

Q Yes.

A (O'Neil) Yes, that's correct. So, that is the -- that's the yield, which would be the spread, plus the Treasury, plus the 30-year Treasury.

Q Very good. And I just used my handy cellphone to tell me what the current 30-year rates are. And, if Yahoo is correct, it's about 3.8 percent right now, the Treasuries, is that -- would that be about right? You follow it more closely than I do.

A (O'Neil) Yes.

A (Dudley) Mr. Chairman, it was 3.7 as close of business yesterday.

Q Okay. Okay, yes. So, at 3.79 at the moment. So, we're 3.7, 3.8. Thank you, Mr. Dudley. And then, the spread right now, I think you said, was about 1.55 right now.

A (O'Neil) Yes.

Q So, if I'm doing the math right, if we use Mr. Dudley's 3.7, we get, let's do the math in my head, about 5.3 percent or something like that?

A (O'Neil) That is correct.

Q Okay. So, what you're here to the Commission to ask today is your -- if you were to lock in today, that 30-year note would be locked in at around 5.3 percent?

A (O'Neil) That is correct.

Q Okay. Thank you. That's very helpful. And, so, you, in your Petition, you say "Well, that 1.55 could get as bad as 4.00", which is the line of questioning from Commissioner Chattopadhyay, "So, we want permission", if you were to lock in today, "to go to 7.8 percent", if the market gets a little wobbly, 3.8 plus 4.00, is that what you're asking for?

A (O'Neil) That is correct.

Q But there is no limit on the 30-year Treasury. So, you're not saying "Hey, once the 30-year Treasury gets to 4.00 percent, 30-year, we're shutting this thing off." You're just saying "The spread can't be greater than 4.00 percent"?

A (O'Neil) That is correct.

Q Okay. Okay. So, if I'm an Eversource ratepayer, PSNH ratepayer, and the market gets a little wobbly next year, 30-year Treasuries goes to four and a half, that's probably not crazy, you have a spread of two and a half, things get a little wobbly, you know, you could be locking down rates, if I did the math right, of about 7.00 percent, you know, in that particular hypothetical?

A (O'Neil) That is correct. However, I would look at the whole yield curve. Right now, the yield curve is very much flat.

Q Yes.

A (O'Neil) If the yield curve -- the yield curve, in general, is upward sloping; right now it's flat. So, if it was upward sloping, and rates got to be that high, I would have to look at a shorter term maturity.

Q Okay. Okay. And that makes a lot of sense. And it looks like that spread, you mentioned before, 1.25 to 1.55, from 10- to 30-year, you know, is not insignificant, but it's also not huge. You've got, whatever that is, 30 basis points, or 3 basis points, whatever it is, between the two?

A (O'Neil) Correct, for another 20 years.

Q Right. Right. Okay. Thank you.

A (O'Neil) You're welcome.

A (Dudley) Mr. Chairman, if I may?

Q Yes. Please.

A (Dudley) To put it in perspective, a 4.00 percent spread is approaching "junk" status. So, you're getting pretty close to "junk" status at that point. So, I'll just -- as I said again, something would have to break seriously for that to occur.

Q Yes. The helpful chart on Bates 014, Figure A, shows that, you know, during the COVID, you know, crisis moment, it was at, you know, 2.7 percent, something like that. It drifted down to about

1.00, now it's back up to one and a half (1.5), is what I'm looking at here. So, --

A (*Witness O'Neil indicating in the affirmative)*.

Q And would you expect, when you talk to the bankers, when you talk to Moody's and so forth, whoever gives you data on the spread, are you expecting that to stay where it's at right now, or would you expect that to go down next year?

A (O'Neil) The spread is much more difficult to forecast than the Treasury. I would expect -- well, let me back up a second. I would not expect, assuming that things get calmer geopolitically between Russia and Ukraine, over in China, that the Fed, you know, stops, at least slows down on the increases. As we know, there's inflationary pressures out there as well. It's very, very difficult to forecast the spread.

I have no reason to believe that the spread will be increasing significantly from where it is right now.

Q But you never know. You get a COVID crisis, you get a war or something, --

A (O'Neil) Exactly.

Q -- then that's what causes -- that a crisis causes the spike. And, so, it makes it, sort of by definition, not predictable.

A (O'Neil) That's exactly right. It is unpredictable. But one thing I would say is, sometimes, when there's volatility, there's what's called "flight to quality", and PSNH is quality.

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (O'Neil) Sometimes, when there's volatility, there's a term called "flight to quality", whereby investors shy away from anything that they don't consider to be safe, and they really go to, you know, the stronger-rated entities. Which could actually decrease the spread for PSNH, because the demand would be higher.

BY CHAIRMAN GOLDNER:

Q Exactly. Thank you.

A (O'Neil) You're welcome.

Q If we go to Bates 017, give me a second to get there, this is the same chart I think that Commissioner Chattopadhyay asked about. On that 0.875 percent commission on the 30-year debt issuance, is that -- is that what you've seen in the last four or five years, or that higher or lower than what you've seen?

A (O'Neil) I've seen that the last 36 years.

Q So, that's just the fee, the underwriting fee that's charged, it's just a constant. Just like, when you go to refinance your house, you have the long list of underwriting fees and stuff, and it's $200 or whatever, and it's just constant over time?

A (O'Neil) That's exactly right.

Q And do you have visibility into the fees that others pay? You know, a larger company than PSNH might pay a lower percentage fee or a smaller company or a higher-rated company, do you see any differences, or is that a flat fee regardless?

A (O'Neil) This is -- this is a flat fee in the public market, whether you're going to issue 2 billion or, you know, issue 300 million.

Q Okay. Okay. Thank you. That is helpful.

A (O'Neil) You're welcome.

Q And then, something I'm very interested in, and maybe you've explained it before, but I don't understand. You mentioned before that, you know, this is secured debt, what you're asking for

here. And, so, you're mortgaging property.
How does that work? Is that a specific asset? Do they say "We want the transformers in Manchester"? Or, is it sort of generalized secured debt? How does that work?
A (O'Neil) It's generalized secured debt.
Q Okay.
A (O'Neil) So that, I mean, in some sense, you're sort of pledging your assets.
Q Yes. And I think that's -- that's normal. How much or what percentage of your assets are pledged today? So, in other words -- yes, does that question make sense? Are half your assets pledged today? Or a quarter? Do you have any idea on that one?
A (O'Neil) Essentially, substantially all the assets are securing the debt that's outstanding.
Q Okay. And can you refresh my memory, how much in the way of assets does PSNH have on its books?
A (O'Neil) Sure. I'd like to refer you to the balance sheet. So, property, "net property", meaning property minus depreciation, is about 4 billion.
Q Four billion. And then, just to follow up on

that question, how much of that is securitized, I guess I would call it?

A (O'Neil) Well, and securitized, or how much debt's outstanding?

Q Let's say how much debt's outstanding. That was closer to one, right, 1 billion?

A (O'Neil) Long-term debt is about 1.1 billion.

Q Okay. So, not that I'm suggesting you do this, but, if you wanted to go borrow another half a billion or one billion, that you would have plenty of assets left to securitize that debt against?

A (O'Neil) You know, you're asking a really good question. We have, in our indenture, there's a restriction that the -- obviously, that the investors want to protect themselves, that we cannot have debt outstanding that exceeds 75 percent of our net property. So, if you did take 75 percent of our net property, that's the maximum debt that we can have outstanding.

Q And that's where you're at today, if I've done the math right, one divided by four, is that -- or, did I do it backwards?

A (O'Neil) Oh, no. We're below that. We're below

that.
Q Okay. So, walk me through the math, if you could. So, you have a billion dollars today in debt, you have 4 billion in assets. You can -- that your shareholders want 75 percent. So, it would be 3 billion, you can borrow up to 3 billion, is that what that says?
A (O'Neil) Meaning, we can go up to about 3 billion. That's correct.
Q Okay. I was doing the math backwards.
A (O'Neil) Okay.
Q Okay. All right. Thank you.
A (O'Neil) You're welcome.
Q Okay. So, not that I'm suggesting you borrow 2 billion, but you could, if you wanted to. I was just making sure there's headroom in where you are?
A (O'Neil) Yes.
Q Okay. All right. Thank you.
A (O'Neil) You're welcome.
Q Okay. I think I can wrap up with this one, and then perhaps the Commissioners might have some follow-on questions.
So, you know, hypothetically, in the

next rate case filing, which I think is coming before too long, I think the last one was in 2019, right, Mr. Dudley?

A (Dudley) Yes.

Q Thank you. So, let's say that, in that process, the weighted average cost of capital went to 50/50, just as a hypothetical. How would the Company respond to that change? What would you do differently, if that was the outcome of the rate case?

A (O'Neil) That you would change our capital structure?

Q Yes. So, today, just for reference, in DE 19-057, it has, if I'm not wrong, Mr. Dudley, please correct me if I'm wrong, but I've got 45.6 percent debt, and the balance equity. So, if that were to, for whatever reason, change to more of a 50/50 structure, I'm just trying to understand how the Company financially would respond to that change?

A (O'Neil) Okay. So, to begin with, I would say that one of the reasons PSNH is rated as high as it is is because they have an allowed equity ratio of 54.41 percent, that was in the settlement rate case.

Q Right.

A (O'Neil) All the agencies look at what the equity ratio is of an entity, and that is one of the -- one of the criteria, in addition to the FFO-to-debt, that they look at to determine what rating the Company should be. So, I do think that that could be detrimental, if that number went from 54.41 to 50 percent.

Q And I know there's a lot of other items on the table, and we're not here on the rate case, so, I won't go there, but I know there's decoupling and other sort of items are on the table. And, as you said, there's many factors that go into the debt rating. So, I'm not necessarily asking to sort of quantify each one.

But, if that debt rating, you know, tell us a little bit more about how you or the debt rating agencies would think about an increase in the debt, and at what point would they lower the rating?

A (O'Neil) Well, I can't tell you definitively at what point they would lower the rating. I mean, if --

Q Just the thought process is what we're trying to understand.

A (O'Neil) So, if the Commission gave us an ROE of 30 percent, and they said to us -- but you also said "Oh, it's going to be 50 percent", they probably wouldn't lower the rating. So, as you said, there's many different things that go into it.

I will say that Moody's does have a grid, and they talk about, you know, what they look for, in terms of how they sort of analyze all the different components into the rating. And I believe that the -- I believe that the equity ratio is worth somewhere between 5 and 10 percent of the rating.

Q Of the weight -- of the weighting?

A (O'Neil) Of the weighting. But, in addition to that, and I don't want to get into the weeds, unless you want me to, in addition to that, that means my -- so, that's about 5 to 10 percent, but that also means that my debt has increased, right? By definition, if my equity goes down, my debt has increased. So, what that's going to affect is my FFO-to-debt, and that's going to bring my FFO-to-debt down. And that ratio, I know FFO-to-debt is another, I'm going to say, you know, at least 10 to 15 percent of my rating. So, now, we're up to could be 20 percent of the rating.

And then, the other metrics basically contain a debt feature as well. So, if we lower the -- if we raise the debt and lower the equity, it's going to affect almost all of my metrics, which would be very negative. It would also be perceived negative as a regulatory issue, that, you know, we kind of got nipped. So, that would be perceived as a negative on the regulatory side as well.

So, I would think, you know, I can say, I can't say 100 percent, but I would see it be likely that our rating could be lowered, if our equity ratio was only allowed to be 50 basis -- 50 percent.

Q And maybe just one last question, just trying to understand your perspective. So, from a ratepayer point of view, you know, they get to choose between a 10 percent return on equity and a 5 percent return on debt. And you're highlighting here, you know, "Hey, the cost of debt could go up. Instead of getting a nice, you know, 5 percent note, we might have to pay 5.2 or 5.3, or some higher number, if we go from A+ to A or A-", or what have you.

A (O'Neil) Uh-huh.

Q So, I think I appreciate that picture. But I just want to give you a chance to respond to this ratepayer point of view, and how you would view that, in the picture of weighted average cost of capital ratios changing, cost of debt increasing, by cost of debt being cheaper than cost of equity, what's your perspective on all that?

Meaning that, you know, maybe I'll ask a more pointed question, meaning that, why, if the weighted -- if the return on equity is -- or, the return on equity is much higher than the cost of debt, the cost of equity is higher than the cost of debt, why wouldn't I accept a slightly higher cost of debt?

A (O'Neil) So, the most important thing for a company, in my opinion, is liquidity, and the ability to tap the financial markets. What the current rating allows is for liquidity and availability into the financial markets. Every time you decrease in rating, it has a higher chance of hindering your ability to attain liquidity.

Q I see. And what would be the -- tell us more about the impact of a lack of liquidity? Like, if this were to happen, if there would be concerns about liquidity, how does that impact PSNH or how does that impact Eversource?

A (O'Neil) Well, I mean, the important thing is how it impacts PSNH. And, I mean, if PSNH, for some reason, did not have the available liquidity, it couldn't, you know, it couldn't pay its bills, it couldn't make its bond payments.

I mean, just bringing it down to an individual, if you don't have access to liquidity, I mean, you can't pay your bills, your ratings go down. It just would be -- it would be very disadvantageous.

Q Well, as we used to say, "you only get a chance to run out of money once." So, I understand that.

I guess I would say, I wasn't suggesting a catastrophic liquidity issue.

A (O'Neil) Uh-huh.
Q But sort of this, you know, moving from 46 percent to 48 percent, or 46 percent to 49 percent, or 51, that kind of -- I just wanted, while the Commissioners and the parties are all here, just to give you an opportunity to sort of talk about a non-catastrophic liquidity, to educate us, in terms of your perspective?
A (O'Neil) It would affect cost. It would definitely affect cost.
Q And, if you went from to an A+ to an A-, say, that would be, I think, from your perspective, pretty catastrophic, because you worked hard for the last 30 years to have a good debt rating.
What would that -- what kind of rate impact is that? Is that a couple of tenths? Or, what's the impact of that?
A (O'Neil) Well, an A+ to an A- is two notches, right, because it would be A+, A, then A-?
Q Right.
A (O'Neil) So, that's -- okay. So, that's two notches. And, depending upon market conditions, that could be anywhere between, I would say, 35 basis points, and, you know, and I'm just

guessing right here, --

Q Fifty or something, yes.

A (O'Neil) It could be more than that.

Q More than that.

A (O'Neil) In a volatile market, it could be more than that. I mean, during a very volatile market, A+ -- A+ credits are very hard to find.

Q Uh-huh.

A (O'Neil) And we've worked very, very hard to keep it at that level. But I would say, in a very bad volatile market, it could be worth more than 50 basis points.

Q I see. So, if we just use a round number of 50 basis points, to put that in layman's English, that your rate would go from an example of 5.0 percent to 5.5 percent? I'm just making sure I'm doing the basis calculation correctly. That's, in layman's language, that's --

A (O'Neil) That is correct. But the other issue there is, you don't want to fall below that A- level, because then the differential between each notch becomes much larger.

CHAIRMAN GOLDNER: Okay. I see. So, it's kind of like a logarithmic scale or something. Okay.

Very good. Let me turn it back over to the other Commissioners, to see if there's any follow-up questions?

CMSR. CHATTOPADHYAY: This is about the -- about rates, really.

BY CMSR. CHATTOPADHYAY:

Q So, if, whenever the rate case is, if you assume let's say it's going to happen in two years. Can you give me a sense of what this financing does to the rates? What is the rate impact?

And I don't need a -- you know, obviously, there are so many other things that will happen. So, just assume everything else is held constant, or, as we say, *ceteris paribus*.

A (Paruta) I don't think I can do that on the spot. I'd have to -- we would have to take a look at the *pro forma* data, identify a *pro forma* debt rate, and then, I would have to put that into my weighted average cost of capital. And then, take a look at, like, the assumptions as of today, just look at the balance sheet today, and then determine what that would do to rates. It's a bit more complicated.

Q Can you give me a sense of at least of what impact would it have on the rate base?

A (Paruta) Trying to think where I could start. If I could take a record request, is that okay, Commissioner, because what we could do is look at the rate base?

CMSR. CHATTOPADHYAY: Yes. I would ask that as a record request. And I don't need to get too much detail. The impact on the rate base, that should suffice.

So, let me frame it this way: Please quantify the impact on the rate base off this financing in this docket. Okay.

WITNESS PARUTA: And just to clarify, can I use historical rate base as of, like, September 30th, 2022, just cut off there?

CMSR. CHATTOPADHYAY: Absolutely.

WITNESS PARUTA: Okay.

CMSR. CHATTOPADHYAY: Yes.

WITNESS PARUTA: Thank you.

CMSR. CHATTOPADHYAY: That's all.

CHAIRMAN GOLDNER: And just thinking ahead, in terms of a quick -- I know you're looking for a quick answer on this. Would middle of next week or something be okay?

WITNESS PARUTA: Yes. I think that's acceptable.

CHAIRMAN GOLDNER: Okay.

WITNESS PARUTA: Thank you, Chairman.

CHAIRMAN GOLDNER: Okay. Let me just get a date real quick, just so we're speaking the same language. December 7th would be okay?

WITNESS PARUTA: Yes.

CHAIRMAN GOLDNER: Thank you. Commissioner Simpson?

CMSR. SIMPSON: One follow-up.

BY CMSR. SIMPSON:

Q You gave relative weights of how the agencies view different factors. ROE, where would you place that? Is that 10 percent of their weighting? Five? Twenty?

A (O'Neil) ROE would be part of our regulatory environment.

Q And what's that weight?

A (O'Neil) Regulatory environment is close to -- excuse me one second.

A (Dudley) Commissioner Simpson, and I don't want to interrupt Ms. O'Neil's train of thought, but, for Moody's, it's 12.5 percent.

CMSR. SIMPSON: Thank you. Okay. I don't have any further questions. Thanks.

CHAIRMAN GOLDNER: Okay. Thank you. I think that's all the Commissioner questions.

And we can move to Attorney Ralston, and Eversource, for redirect.

MS. RALSTON: I do not have any redirect. Thank you.

CHAIRMAN GOLDNER: Okay. Attorney Young, any redirect?

MR. YOUNG: No. None from the Department.

CHAIRMAN GOLDNER: Okay. Thank you.

So, without objection, we'll strike ID on Exhibits 1 through 4, and admit them as full exhibits.

We'll hold Exhibit 5 open for the rate base question that we discussed earlier, and with a due date on that of December 7th.

(Exhibit 5 reserved)

CHAIRMAN GOLDNER: Is there anything else that we need to cover today?

[Atty. Young indicating in the negative.]

CHAIRMAN GOLDNER: Okay. Well, thank you, everyone.

We'll take the matter under advisement, issue an order shortly after the December 7th record request. And we are adjourned. Thank you.

(Whereupon the hearing was adjourned at 10:31 a.m.)