STATE OF NEW HAMPSHIRE

BEFORE THE NEW

HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DE 23-089

Petition of PSNH for Approval of Financing Transaction

Technical Statement of Jay E. Dudley

Department of Energy, Division of Regulatory Support

January 22, 2024

On November 3, 2023, Public Service Company of New Hampshire d/b/a Eversource Energy (PSNH or Company), filed a petition for authority to issue long term debt not to exceed an aggregate principal amount of $300 million. PSNH's filing comprised testimony and attachments including information provided by Form F-4 under Rule Puc 308:12(b). The Department of Energy (Department or DOE) recommends that the petition be approved as submitted.

Description of Proposed Financing

PSNH proposes to issue and sell up to $300 million in aggregate principal amount long-term debt in the form of first mortgage bonds (the Bonds) during the period from the date of the Commission's order in this docket through December 31, 2024. The Company seeks authority to: (i) refinance PSNH's existing short-term debt balance of $226.3 million (as of June 30, 2023)[1], and (ii) to fund, in part, approximately $515 million in planned capital expenditures and other working capital needs for 2024. As such, $297 million of the requested $300 million (after deducting $2.937 million in estimated issuance costs) represents new long-term indebtedness for PSNH.[2] The maturity of the Bonds will range from 1 to 30 years. The Company proposes to price the Bonds at a fixed rate based on either the 10-year or 30-year U.S. Treasury rate plus a credit spread not to exceed three hundred basis points (3.00%) to be determined at the time of closing. PSNH anticipates that the ultimate rate for the Bonds will be consistent with current market rates; however, because its financing plan will be effective through December 31, 2024, the Company requests approval of the proposed credit spread of 3.00% in order to provide

[1] The Company's short-term credit balance as of November 30, 2023, was $244.8 million, Attachment DOE-1, DOE Data Request 1-002.

[2] Under FERC accounting rules, the costs of the bond issuance are deducted from the face amount of the Bonds and are accounted for and amortized as a separate line item in the FERC Form-1 as "Debt Issuance Costs." Also see Testimony of O'Neil/Dzialo, Attachment 2 at Bates p. 22 for itemization of issuance costs.

sufficient flexibility in the event of unanticipated widening of credit spreads due to uncertainty or volatility in the capital markets. The final financing structure, terms and conditions, amounts, documentation, and rate will be determined at the time of issuance.

The Company provided its Form F-4 dated June 30, 2023, along with attachments to show the impact of the proposed financing on PSNH's balance sheet (Attachment 3), income statement (Attachment 4), capitalization (Attachment 5), and issuance costs (Attachment 2) on a pro forma basis. PSNH estimates the cost of the bond issuance to be $2.937 million which includes ratings fees and a projected underwriting fee of 0.65%. PSNH calculates that the new debt of $297 million will result in an increase in annual interest expense of approximately $5.3 million for a total of $73.1 million, as compared with its current total interest expense amount of $67.8 million.[3] The projected effect of the increase in interest expense results in a decrease to PSNH's retained earnings of $3.8 million. The Company's total long-term indebtedness after the bond issuance will increase to $1.43 billion. PSNH forecasts that the overall impact on customer rates resulting from the debt issuance will be nominal at 0.12% based on revenue and cost of debt limits set in the Company's last rate case in Docket DE 19-057.[4] PSNH's ratio of Funds from Operations (FFO) to debt will be moderately impacted decreasing from 19.6% to 17.9%.[5] In addition, despite incurring the new debt of $297 million, PSNH projects that after giving effect to the resulting pro forma adjustments, the proposed financing will not have a significant impact on the Company's current capital structure of 44.16% debt and 55.84% equity, resulting in a post-issuance capital structure of 42.62% debt and 57.38% equity. PSNH represents that it expects to maintain an equity ratio of 56% through additional future earnings and capital contributions from its parent company Eversource Energy in 2024. The Department confirmed PSNH's current bond ratings of A+ with Standard and Poor's (S&P), A3 with Moody's Investors Service (Moody's), and A+ with Fitch Ratings (Fitch).[6]

[3] Testimony of O'Neil/Dzialo, Attachment 3 at Bates p. 26 and Attachment 4 at Bates p. 27.
[4] *See* Attachment DOE-1, DOE Data Request 2-001, Attachment DOE 2-001.
[5] *Id.* Data Request 1-001, Attachment DOE 1-001 at 4 and 5.
[6]*See* Attachment DOE-1 for copies of credit agency reports provided by PSNH in response to DOE Data Request 1-001. It should be noted that the S&P ratings report dated October 26,2023, the Moody's report dated November 8, 2023, and the Fitch report dated October 27, 2023, all maintained negative outlooks for parent company Eversource Energy (Eversource) due to weakening credit metrics associated with Eversource's offshore wind investments in Massachusetts, Connecticut, and New York with Danish utility holding company Ørstead. The credit agencies state that because Eversource Energy was unable to sell off its 50% investment stake in those projects in 2023, Eversource recorded an impairment to the value of the investment of approximately $400 million. Based on the most recent reports available to the DOE, S&P report: "Eversource to take $1.4-$1.6 billion hit to Q4 23' results due to offshore wind issues," dated January 8, 2024; and Moody's report: "Moody's changes outlooks for Eversource and NSTAR to negative," dated January 9, 2024; an additional impairment charge of between $1.4 billion and $1.6 billion will be realized by Eversource Energy for 2023. S&P, Moody's, and Fitch currently consider Eversource Energy's subsidiaries to be financially stronger than the parent company and thus in a position to provide financial support to Eversource if needed. Consequently, the S&P downgrade applies to all of Eversource Energy's subsidiaries including PSNH, whereas Moody's downgrade only applies to Eversource and NSTAR. The Department does not believe that these developments will have any impact on the current financial condition of PSNH or the financing request that is currently before the Commission. However, as the credit reports indicate, the Department is concerned about the potential for Eversource Energy seeking additional financial support from its subsidiaries in terms of servicing Eversource's parent debt and dividend obligations as a result of the significant losses experienced from its failed capital venture in wind development. The Department is adamantly opposed to

Department's Recommendation

The Department has reviewed the Company's petition and supporting documents and believes that PSNH's filing is complete and meets all requirements of Puc 308.12. Accordingly, it is the Department's opinion that, based on the current total of outstanding long-term debt reported by PSNH of approximately $1.13 billion, the proposed issuance of new debt in the amount of $300 million will not have a significant impact on PSNH's capital structure, the Company's cost of debt and revenue requirement, or a discernible impact on rates. As a result, the Department concludes that the filing represents a routine financing request.

As such, the Department supports the Company's position that approval of the petition would be in the public good, and that it is in conformance with the review standards of RSA Chapter 369. Therefore, the Department recommends that the Commission authorize PSNH to issue $300 million in long term debt, according to the proposed terms, amounts, and interest rate outlined above, for the purposes of refinancing its existing short-term into long-term debt, and to authorize the issuance of new debt to fund planned capital expenditures for 2024. The Department supports the issuance of an Order *Nisi* for the approval of this petition.

New Hampshire ratepayers incurring any costs associated with that unsuccessful investment in wind power and the Department will continue to closely monitor the situation especially as it relates to any future rate case filing by PSNH.