

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 10-299

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

**Petition for the Issuance of Long-Term Debt, Mortgaging of Property, Execution of an
Interest Rate Transaction, and Termination of a Securities-Related Insurance Policy**

Order Approving Petition

ORDER NO. 25,199

March 3, 2011

Appearances: Catherine E. Shively, Esq., on behalf of Public Service Company of New Hampshire, and Alexander F. Speidel, Esq., on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On November 12, 2010, Public Service Company of New Hampshire (PSNH) filed a petition seeking authority to issue long-term debt in the principal amount of up to \$214 million through December 31, 2012, for the purposes of refinancing certain outstanding long-term debt securities issued by PSNH, mortgaging its property in connection with the issuance of long-term debt, entering into interest rate transactions to manage interest rate risk, and terminating an insurance policy on certain refinanced securities. PSNH filed the supporting testimony and related schedules of Susan B. Weber, Assistant Treasurer-Finance of Northeast Utilities Service Company (NUSCO) and PSNH, both of which are subsidiaries of Northeast Utilities (NU), and Stephen R. Hall, Rate and Regulatory Services Manager of PSNH. An order of notice was issued on December 13, 2010, scheduling hearings on the petition for February 4, 2011.

On November 29, 2010, PSNH filed a motion for waiver of certain filing requirements of N. H. Code of Admin. Rules Puc 308.12. Staff filed a recommendation supporting PSNH's

motion on January 3, 2011, and the Commission granted PSNH's motion by secretarial letter on January 21, 2011. There were no intervenors, and a rescheduled hearing on the matter was held on February 7, 2011. At the hearing, Randy A. Shoop, Vice President and Treasurer of NUSCO and PSNH, adopted the pre-filed testimony of Ms. Weber and provided additional supporting testimony. Mr. Stephen R. Hall also testified on behalf of PSNH.

II. POSITIONS OF THE PARTIES

A. Public Service Company of New Hampshire

PSNH, through the instant petition, has proposed a reorganization of the capital structure of three tranches of bonds issued by the Company. This reorganization would entail the refinancing of two tranches of PSNH's Pollution Control Revenue Bonds (PCRBs), specifically, PSNH Series D PCRBs issued on December 17, 1992 (Series D Bonds) and PSNH Series E PCRBs issued on December 15, 1993 (Series E Bonds), through the issuance of new bonds. A third tranche of PSNH bonds, tax-exempt Series A Bonds issued on December 19, 2001 (Series A Bonds), could be either remarketed or refinanced by the Company, depending on market conditions. The specific terms of each potential reorganization of Series D, Series E, and Series A Bonds by PSNH would be governed by the Company's intent to maximize net present value (NPV) savings over the remaining life of the bonds, which would be accomplished through lower interest rates, or other more favorable terms. *See* Docket No. DE 10-299 Exhibit 2, Direct Testimony of Susan B. Weber, November 12, 2010 (Weber Testimony), p. 4-7, and 15-17.

PSNH testified that it has \$75,000,000 in outstanding Series D Bonds and \$44,800,000 in outstanding Series E Bonds. *See* Weber Testimony at 4-5. Each class of bonds, both Series D and Series E, are secured by two companion series of PSNH First Mortgage Bonds in an

aggregate principal amount equal to and bearing interest at the same rate as the Series D and Series E Bonds. Weber Testimony at 6. Presently, the rate of interest borne by each of the Series D and E Bonds is significantly higher than the prevailing market rates for comparable instruments, leading to the Company's interest in refinancing the Series D and E Bonds at some point before each class' maturity date of May 1, 2021. Weber Testimony at 6-10.

For the refinancing of the Series D and E Bonds, PSNH seeks an authorization period extending to December 31, 2012, during which time it could proceed with the most advantageous refinancing structure for the Series D and Series E Bonds, in response to market conditions. Weber Testimony at 14-15. PSNH testified that, based on market conditions, it would proceed with its refinancing of the Series D and E Bonds on either a taxable debt track or a tax-exempt debt track. If the Company were to proceed with the taxable debt track for the Series D and E Bonds, it would, at some point on or before December 31, 2012, issue new taxable bonds in the form of one or more series of PSNH First Mortgage Bonds with a maturity of up to 40 years from the date of issuance. The Company stated that, currently, the taxable bond market offers enhanced interest-rate and fee-related cost savings over the tax-exempt market, due to current patterns of investor demand. Weber Testimony at 7. However, PSNH seeks the flexibility, at its own election on the basis of its financial assessments, to possibly refinance the Series D and E Bonds in a tax-exempt form, in which case PSNH would be unable to extend the term of the new bonds beyond the current maturity date of May 1, 2021. These tax-exempt bonds would be issued and sold by the New Hampshire Business Finance Authority, the proceeds of which would be lent to the Company for redemption of its current Series D and Series E Bonds. Weber Testimony at 7-13. In any event, whether it opts for the taxable or tax-exempt debt track, PSNH

stated that any refinancing of the Series D and Series E bonds would only be executed if the transactions would result in positive NPV savings for customers over the remaining term of the existing bonds. Weber Testimony at 10 and 12.

PSNH testified that it would require the issuance of up to \$119,800,000 in tax-exempt bonds, if it proceeded with the tax-exempt financing track, for the refinancing of the Series D and E Bonds. If the Company were to proceed with the taxable debt track for refinancing the Series D and E Bonds, it would require the issuance of up to \$123,000,000 in taxable bonds. (The differential between tax-exempt and taxable refinancing amounts is related to ancillary expenses connected with issuing taxable debt). Weber Testimony at 4-5.

As part of its petition, PSNH also seeks authority to potentially refinance its \$89,250,000 in tax-exempt Series A Bonds (as defined above), at any point prior to the Series A Bonds' maturity date of May 1, 2021. In support of its request, PSNH testified that the Series A Bonds' extremely low current interest rates, generated by the Series A Bonds' auction-rate mechanism, are not expected to continue indefinitely, given the expectation of continued economic stabilization. Weber Testimony at 15-16. In order to protect against increasing interest costs, PSNH will consider either remarketing or refinancing the Series A Bonds once the interest rates on the bonds begins to increase and is forecasted to continue to increase. The Series A Bonds currently bear the Commission's authorization for remarketing (*see* Order No. 23,841, Docket No. DE 01-168, Order dated November 9, 2001), which would involve a change in the Series A Bonds' interest rate mode (e.g., flexible mode, daily mode, weekly mode, term rate mode or

fixed rate mode).¹ Most other features of the Series A Bonds, including their tax-exempt status, would remain the same. Weber Testimony at 16-17. In the alternative, the Company may refinance the Series A Bonds, through the issuance of new, taxable Series A Bonds, in the form of First Mortgage Bonds. PSNH testified that, as with the refinancing of the Series D and E Bonds, the issuance of taxable debt (First Mortgage Bonds) would meet with a more favorable debt-market response under current conditions. Weber Testimony at 16-20. PSNH seeks authority to issue up to \$91,000,000 of taxable First Mortgage Bonds, until May 1, 2021, if it elects to proceed with this form of refinancing for the Series A Bonds. Weber Testimony at 20. According to PSNH, any remarketing or refinancing of the Series A Bonds would only take place if PSNH could demonstrate NPV savings over the remaining term of the Series A Bonds, as calculated through the application of reasonable interest-rate forecasting. *See* Transcript of February 4, 2011 Hearing (Tr.) at 38-42; Weber Testimony at 16.

PSNH testified that it was also seeking approval to use interest rate transactions, such as interest rate swaps or locks, to manage or hedge the interest rate risk associated with the proposed long-term debt. According to PSNH, an interest rate transaction or swap allows PSNH to lock in an interest rate for the financing and thus avoid rate volatility. In determining whether to enter into an interest rate transaction, PSNH said it would consider current economic conditions as well as those forecasted for the period of issuance. The Company also noted that such interest rate transactions have been approved by the Commission in the recent past. *See* Weber Testimony at 25-30.

¹ The remarketing process is more fully described by the Company within the Weber Testimony at 16-17.

With regards to its petition to terminate a debt-related insurance policy, PSNH testified that such termination, with its attendant possible termination fees, could be triggered by a remarketing of the Series A Bonds. (Any refinancing of the Series A Bonds in the taxable debt market would extinguish the insurance policy contract on the bonds). The insurer of the Series A Bonds, MBIA, guarantees payment of principal and interest to PSNH bondholders in the event that PSNH is unable to meet these obligations. MBIA, however, has been adversely affected by the repercussions of the recent financial crisis, with the result that MBIA debt insurance may have a detrimental effect on any future remarketing of PSNH's Series A Bonds, due to uncertainty in MBIA's ability to meet its insurance obligations. Consequently, PSNH seeks authority to unilaterally terminate its insurance contract with MBIA in connection with any remarketing of the Series A Bonds, and to recover any fees associated with this policy termination through amortization of these fees over the remaining life of the remarketed bonds. Weber Testimony at 21-25.

B. Commission Staff

Staff stated that it supported PSNH's petition to refinance its debt, with its various options, subject to the condition that such refinancing must demonstrate NPV savings, as per the Company's representations. Tr. at 37-38. Staff opined that current conditions in the financial markets could provide for advantageous refinancing terms for the Series D Bonds and Series E Bonds at the present time. Tr. at 37. Staff expressed support for the Company's decisional methodology in determining when, if ever, to refinance the Series A Bonds and for the Company's plans to use reasonable interest-rate forecasting to calculate NPV savings for any conversion of the Series A Bonds from a variable interest rate to a fixed rate. Tr. at 39-41. Staff

also supported PSNH's petition to terminate the MBIA insurance policy, if the termination could be accomplished in a cost-effective manner. Tr. at 38.

III. COMMISSION ANALYSIS

In reviewing the proposed refinancing, we must consider whether the issuances are consistent with the public good under RSA Chapter 369. In determining the public good, the relevant statutes direct us to consider the amount of the issue authorized, the purposes to which the proceeds are to be applied, and the reasonableness of the terms and conditions of the financing. In addition, according to the New Hampshire Supreme Court, we must "determine whether, under all the circumstances the financing is in the public good – a determination which includes considerations beyond the proposed borrowing." *Appeal of Easton*, 125 N.H. 205, 211-213 (1984).

Based on our review of testimony and exhibits, we conclude that PSNH's proposal to refinance its Series A, Series D, and Series E bonds is in the public good. Interest rates are relatively low at the present time, and refinancing would reduce the cost of long-term debt going forward, especially in light of recent increases in market interest rates. PSNH's potential use of First Mortgage Bonds in connection with the refinancing of its Series A Bonds is reasonable, and is consistent with past practice. The proposed issuances are to be used to lower PSNH's total borrowing costs in connection with existing indebtedness, rather than for new capital-investment projects, and offer significant potential NPV savings for PSNH and, by extension, PSNH ratepayers. We will hold PSNH to its commitments that the transactions contemplated by its petition will not be executed unless NPV savings are achievable based upon reasonable interest

rate forecasting, in the case of the Series A Bonds, or actual interest rate conditions, in the case of the Series D and E Bonds.

We also approve PSNH's use of an interest hedge mechanism in connection with the issuance to help avoid volatility in interest rates over the term of the financing. In addition, we approve the Company's potential termination of the MBIA insurance policy over the Series A Bonds at any time through the May 2021 maturity of the Series A Bonds to fixed rate or other mode, and we approve recovery of any fees associated with policy termination by amortizing them over the remaining life of the bonds. The cost savings to PSNH related to each of these measures are expected to benefit PSNH ratepayers over time as PSNH's capital costs are reflected in its various rate components.

Based upon the foregoing, it is hereby

ORDERED, that the petition by PSNH pursuant to RSA 369:1, 369:3, and 369:4, to: (i) issue up to \$119,800,000 of tax-exempt bonds, or \$123,000,000 of taxable first mortgage bonds to refinance the \$75,000,000 in Series D Bonds and \$44,800,000 in Series E Bonds, in the manner described by PSNH in its petition, in one or more issuances, through December 31, 2012; (ii) to take all actions necessary to consummate such issuances, including but not limited to the issuance of a like principal amount of first mortgage bonds in one or more series to secure the repayment of new tax-exempt bonds; and (iii) to equitably spread any unamortized previously-incurred issuance fees, and the call premiums over the term of the New Bonds, is hereby APPROVED; and it is

FURTHER ORDERED, that the petition by PSNH pursuant to RSA 369:1, 369:3, and 369:4 to issue up to \$91,000,000 of taxable first mortgage bonds to refinance the \$89,250,000 in

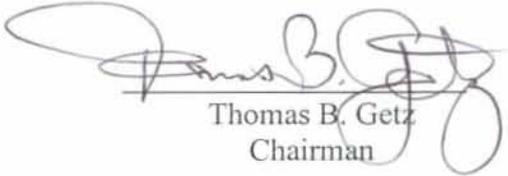
Series A Bonds in the manner described by PSNH in its petition, in one or more issuances, through May 1, 2021, and to take all actions necessary to consummate such issuance, is hereby APPROVED; and it is

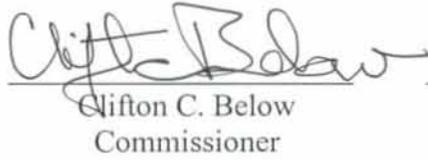
FURTHER ORDERED, that the petition by PSNH for authority to: (i) terminate the MBIA insurance policy applicable to the \$89,250,000 in Series A Bonds at any time through the May 2021 maturity of these bonds in connection with conversion of the Series A Bonds to a fixed rate or other mode; and (ii) to recover any fees associated with this policy termination through amortization over the remaining life of the bonds, is hereby APPROVED; and it is

FURTHER ORDERED, that the petition by PSNH pursuant to RSA 369:2, to: (i) issue one or more series of first mortgage bonds in the manner described by PSNH in its petition; and (ii) to mortgage its property in connection with such bond issuances, is hereby APPROVED; and it is

FURTHER ORDERED, that the petition by PSNH pursuant to RSA 369:1, 369:3, and 369:4, for authority to enter into interest rate transactions in a notional amount not exceeding the total principal amount of the taxable bond issuances arising from PSNH's proposal for which approval is sought in the instant docket, for economic refinancing to mitigate interest rate risk, is hereby APPROVED.

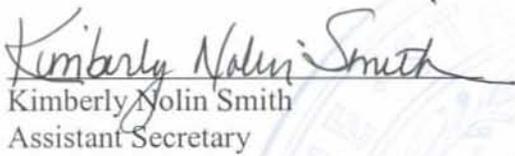
By order of the Public Utilities Commission of New Hampshire this third day of March,
2011.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Kimberly Nolin Smith
Assistant Secretary

