STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

February 4, 2011 - 10:09 a.m.
Concord, New Hampshire

RE: **DE 10-299**
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
Petition for Authorization of Refinancing.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: **Reptg. Public Service Co. of New Hampshire:**
Catherine E. Shively, Esq.

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Dan Abelson
Office of Consumer Advocate
(Observation role only)

Reptg. PUC Staff:
Alexander Spiedel, Esq.
Steven E. Mullen, Asst. Dir./Electric Div.

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

I N D E X

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P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in docket DE 10-299. On November 12, 2010, Public Service Company of New Hampshire filed a petition seeking authority to issue long-term debt in the principal amount of up to $214 million in securities through December 31, 2012, with the purpose of refinancing certain outstanding long-term debt securities, mortgaging property in connection with the issuance of such debt, and to enter into interest rate transactions to manage interest rate risk, and to terminate as well an insurance policy on certain refinanced securities. The order of notice was issued on December 13 approving a procedural schedule, including a hearing for today.

So, can we take appearances please.

MS. SHIVELY: Good morning, Mr. Chairman, Commissioners. Catherine Shively, for Public Service Company of New Hampshire.

CHAIRMAN GETZ: Good morning.

MR. TRAUM: Good morning, Mr. Chairman, Commissioners. Ken Traum and Dan Abelson. The OCA is not formally participating here. We're just observing this morning.

CHAIRMAN GETZ: Okay. Then, you're in

the observation row today?

MR. TRAUM: Yes, sir. Had enough.

MR. SPIEDEL: Good morning, Commissioners. Alexander Spiedel and Steve Mullen for the Staff of the Commission.

CHAIRMAN GETZ: Okay. Good morning, everyone.

MR. SPIEDEL: Good morning.

CHAIRMAN GETZ: Ms. Shively, you ready to proceed?

MS. SHIVELY: Yes. If it's all right with the Commissioners, we would like to just call our witnesses. And, we were thinking to call Mr. Shoop and Mr. Hall as a panel, if that's all right?

CHAIRMAN GETZ: That's fine.

MS. SHIVELY: Okay.

(Whereupon ***Randy A. Shoop*** and ***Stephen R. Hall*** were duly sworn and cautioned by the Court Reporter.)

RANDY A. SHOOP, SWORN

STEPHEN R. HALL, SWORN

DIRECT EXAMINATION

BY MS. SHIVELY:

Q. Mr. Shoop, would you please state your name and

business address for the record.
A. (Shoop) Randy Shoop, 56 Prospect Street, Hartford, Connecticut.
Q. And, what is your position.?
A. (Shoop) I'm the Vice President and Treasurer of Public Service Company of New Hampshire.
Q. And, what are your duties in that position?
A. (Shoop) As the Vice President and Treasurer, one of those duties is to arrange for and manage both the short-term and long-term debt financings, as well as other treasury-related responsibilities.
Q. Are you familiar with the petition the Company filed in this proceeding?
A. (Shoop) Yes.
Q. And, are you familiar with the testimony filed by Susan Weber in this docket?
A. (Shoop) Yes.
Q. Was the petition and testimony prepared by you or under your direction and supervision?
A. (Shoop) Yes.
Q. Are you willing to adopt Ms. Weber's testimony as your own and sponsor the testimony in this docket today?
A. (Shoop) Yes.
Q. Okay. Do you have any corrections or additions to the

testimony?
A. (Shoop) No.
Q. If I ask you the same questions today would your answers be the same?
A. (Shoop) Yes.

MS. SHIVELY: I'd like to mark the Company's Petition and its attachments for identification as "Exhibit 1", and the Testimony of Susan Weber, which is being sponsored by Mr. Shoop, as "Exhibit 2".

CHAIRMAN GETZ: So marked.

(The documents, as described, were herewith marked as **Exhibit 1** and **Exhibit 2**, respectively, for identification.)

BY MS. SHIVELY:
Q. And, Mr. Hall, would you please state your name and business address for the record.
A. (Hall) My name is Stephen R. Hall. And, my business address is 780 North Commercial Street, Manchester, New Hampshire.
Q. And, what is your position?
A. (Hall) I'm Rate and Regulatory Services Manager for PSNH.
Q. And, what are your duties in that position?

A. (Hall) I'm responsible for pricing and rate design, rate administration, and regulatory relations.
Q. And, are you familiar with the Petition the Company filed in this proceeding?
A. (Hall) Yes, I am.
Q. And, did you prefile testimony in support of the Company's position in this docket?
A. (Hall) Yes, I did.
Q. Do you have any corrections or additions to that testimony?
A. (Hall) No, I have none.
Q. Okay. And, if I ask you the same questions today, would your answers be the same?
A. (Hall) Yes.

MS. SHIVELY: Okay. I guess we already marked Mr. Hall's testimony as "Exhibit 2", but --

CHAIRMAN GETZ: Well, I took it Mr. Hall's testimony would be "Exhibit 3"?

MS. SHIVELY: Ah. Thank you. I'm doing well today. We would like to mark Mr. Hall's testimony for identification as "Exhibit 3".

CHAIRMAN GETZ: So marked.

(The document, as described, was herewith marked as **Exhibit 3** for identification.)

BY MS. SHIVELY:

Q. I'd like to begin with Mr. Shoop. Would you like to summarize your testimony?

A. (Shoop) Yes, I would. Thank you. Good morning. The focus of PSNH's request for authorization to refinance is on three series of tax-exempt bonds. I realized, as reading through the testimony, it's easy to kind of start mixing and matching and getting a little bit of apples and oranges things going on, if you kind of don't keep on a good, parallel path. And, what I would like to do in the summary is to try to make that clear.

There's three series of bonds, as I said. There's a $75 million Series D bond and a $4.8 million Series E bond. Both of those bonds contain a call option in exchange for a premium payment. The other series, the Series A, 89.25 million, is a series of bonds which can be remarketed to a different maturity date or refinanced via a new bond issue. So, three bonds, really, two different issues. The Series D and E issues are similar, and then the Series A issue is a little different than the Series D and E.

Let me talk -- Let me just talk about

the Series D and E for a moment. At the current market indications, the Series D and E bonds can be refinanced in the taxable market. They're tax-exempt currently. And, after paying call premiums and issuance costs, they still would result in a net present value benefit to customers. However, this benefit has been coming down, and would continue to come down if interest rates continue to go up, as they have over this past several months at least. Alternatively, these bonds could be refinanced in the tax-exempt market. Currently, tax-exempt rates are higher than taxable rates, which is not the normal relationship. Additionally, adding to some details of my testimony, if the Series D and E are refinanced as tax-exempt, we are limited by the IRS code to not increase the principal amount outstanding. Therefore, we would not be able to increase the par amount of the D and E bonds to pay for premiums and issuance costs. So, you wouldn't be able to refinance those. You would have to pay those out of some other source of funds. And, additionally, we cannot extend the maturity date beyond the current maturity date of May 2021. So, even if you wanted to do a 10, a 20 year or 30 year bond, you couldn't, because of the IRS code.

So, D and E, similar issues. Gets a

little granular, because there's some of those things around "how much par value can you increase?" And, "can you increase the maturity date?" Having the option and the authority to issue in either the taxable or the tax-exempt market provides the Company with the option, not the obligation, just the option, to consider market conditions and interest rate expectations throughout the period requested, December 2012. Those essentially are the issues related to the D and the E bonds.

Turning to the tax-exempt 89.25 million Series A bonds, which are in a 35-day floating rate interest mode currently, and enjoy a very attractive interest rate, currently about 0.3 percent. Though, if short-term rates rise, the rate-setting methodology could rise significantly. These bonds, under current authority from the Commission, can be remarketed, to a different interest rate mode, floating or fixed, straight through maturity, 2021. So, we already have the Commission's authority to remarket the Series A bonds as floating or as fixed, in varying time, straight through maturity.

Similar to the Series D and E bonds, having the option and the authority, though not the obligation, to consider refinancing in the taxable market, versus remarketing as tax-exempt, provides the Company with the option to consider both markets. And, similar to the Series D and E bonds, adding to some details again in my testimony, these bonds are insured, the Series A bonds are insured, through the maturity date. Though, that insurance could provide to be a detractor of value from the investor's point of view. Accordingly, the Company is requesting the authority to terminate this insurance policy if market conditions, in fact, suggest that the insurance is a negative factor.

So, while the request in this application do appear confusing on its face, breaking through the details, I believe it's fairly straightforward. In all cases, PSNH would not entertain refinancing any of the three series of bonds unless the transaction results in positive net present value benefits to customers through the maturity date of 2021. Thank you.

Q. Mr. Hall, could you briefly summarize your testimony as well.

A. (Hall) Certainly. My testimony deals with only one issue, and that is the estimated impact of the refinancing on rates. And, I calculate the impact of refinancing for Series D and E separately from Series A, because of the differences that Mr. Shoop just described. Essentially, refinancing Series D and E, based on the interest rates that were assumed in my testimony, would result in no change to the Energy Service rate. It would mean a reduction in interest rate expense and a reduction in PSNH's cost of capital. But, when we crank that reduction through the calculation of the Energy Service rate, the amount is too small to have an impact on the rate. It gets lost in the rounding. So, there is a reduction, but it's not big enough to be seen in the second decimal point of the rate.

There would be no impact on distribution rates, because, under the Settlement Agreement approved by the Commission in PSNH's last rate case, distribution rates aren't changed as a result of refinancing. So, any impact on distribution rates wouldn't be until the next rate case. And, again, whether there's an impact or not would depend on whether or not the dollar amounts round out.

I also calculated the impact of the Series A refinancing. And, based on the assumptions that I used, the Series A refinancing in my calculations would actually show a slight increase to the Energy Service rate. And, that's because of the very low rate that's currently on the Series A issuance. But, as Mr. Shoop just described, we wouldn't do a refinancing absent a positive net present value. So, not knowing where interest rates are going to be, there's really no way I can provide an estimate of what the savings will be. But what I did for illustrative purposes is I just compared the interest rate on the Series A today, compared to an indicative rate at the time of my testimony, just to show the calculation on that.

MS. SHIVELY: The panel is available for cross-examination.

CHAIRMAN GETZ: Okay. Thank you. Mr. Speidel.

MR. SPIEDEL: Yes. Thank you, Mr. Chairman. Staff will have questions for the panel. And also, if it's possible, we would like to enter into evidence this packet of responses by the Company to Staff questions, and to have that marked as "Exhibit 4". The very first page reads "Public Service Company of New Hampshire Docket DE 10-299 Data Request Staff 01 and sequentially.

CHAIRMAN GETZ: So, there's eight data requests here, is that correct?

MR. SPIEDEL: That's correct. It's a selection of certain responses.

CHAIRMAN GETZ: Okay. So, we'll mark that package for identification as "Exhibit Number 4".

(The document, as described, was herewith marked as **Exhibit 4** for identification.)

MR. SPIEDEL: Thank you. These questions can be answered by either member of the panel, as appropriate.

CROSS-EXAMINATION

BY MR. SPIEDEL:

Q. The first question Staff would have is, in reference to the response to Staff Question Number 2, and if you happen to have that handy, --

A. (Shoop) I do.

Q. -- please let me know. Thank you. Please explain why, if current indications are that the refinancing would be advantageous at this time, PSNH believes it is reasonable to request an authorization period that extends through December 31st of 2012?

A. (Shoop) Sure. As a response to that question, you know, I offer my response to the rate environment that existed at that time. And, as the response says, at that time, taxable debt had a coupon rate of about 4.14 percent. And, then, in that case, I just compared that to -- to basically the existing coupon rate on the debt to derive the net present value. That's a calculation, though, that is going to continue to change. As the interest rates change, the net present value is going to change. Since we originally filed the testimony, which I believe was late October, where I quoted that rate, interest rates have come up. At this time, the total net present value on the two Series D and E issues were about $21 million -- about $22 million. When I offered this response, I'm sorry, that 4.14 was at January. The original testimony had a rate of about 3.65. This rate was 4.14. So, the difference between end of October and beginning of January, interest rates went up that 49 basis points or so, which caused a reduction in the net present value from about $22 million to about $16 million.

So, to your point of "why would you do it?" There's a net present value savings. As long as there's net present value savings, it's a benefit to customers. It's just how much can you capture. At the end of October, we could have captured about $22 million. And, then we're just eating into that as interest rates continue to go up. Even as we speak today, the net present value is short of even the about $13 million to the 4.14 percent would have calculated the net present value. If that's clear?

Q. Thank you. I think, as a follow-up to that question, in light of these declining net present values and the trend of declining net present values, related to current conditions in the financial markets with interest rates, does PSNH believe that interest rates will increase going forward in time, from today, in January -- I'm sorry, February of 2011?

A. (Shoop) Sure. Clearly, interest rates have been going up. We can't predict with certainty what's going to happen. Clearly, rates could come back down again, depending on many economic factors, not only in the U.S., but in the world. But you just don't know. That's why we're asking for a bit of a period of time, through December 2012, that at least you have the option to work with investment banks, understand various economic forecasts, and make a reasoned decision, whether you think directionally rates would be going up or going down. And, then, collectively, with that information, deciding if it's an opportune time to refinance and monetize this net present value. So, there's no way you can say it with any certainty. While I think all indications are that rates are increasing, and, therefore, the net present value would be decreasing, I can't say with 100 percent accuracy that that's, in fact, going to bear itself out.

Q. But could it be a carefully considered plan of action, in light of current trends, to refinance immediately upon the issuance of an order in this proceeding? In that we are aware of an increasing trend in interest rates, a decreasing trend in net present value, could a relatively firm time frame for refinancing be advantageous?

A. (Shoop) You know, you really can't say that, because, again, I can't tell you what interest rates are going to be. I don't even know what interest rates are today, and I wouldn't even want to bet on it, and I knew what they were yesterday. I just haven't seen them this morning. Things can happen. Next week, you know, you could be looking at a much different interest rate environment. While if I can tell you it's 4.14 percent today, it just may not be that, you know, tomorrow, let alone next week or next month, or whenever we could reasonably get an order, if the Commission so approves.

Q. Thank you. This question is in response to Staff Question Number 3. Regarding the potential refinancing of the Series A bonds, is it correct to say that what the Company is requesting today is permission to refinance those bonds at any time through their May 1st, 2021 maturity?

A. (Shoop) Yes.

Q. Would this type of authorization be similar to the existing authorization that allows for remarketing of the Series A bonds at any time? And, as a subsidiary question, could you please explain the difference between "remarketing" the Series A bonds and "refinancing" them?

A. (Shoop) Sure. As I mentioned in my opening statement, the Series A bonds are currently in the tax-exempt mode. They have a tax-exempt interest rate. When we originally received authorization from the Commission to issue those bonds, as part of the offering material, you always had the option of changing the interest rate mode. They're currently floating, but you could change them to something else. You could change them to floating, but maybe reset monthly or annually or every five years, or you could fix them for five years or ten years or right through maturity. So, we had a lot of variability, in terms of managing through the interest rate environments under the existing documents of the Series A bonds. So, we can do that today already. We have the authority from the Commission.

What I would like to do is get the authority to consider, and that's a remarketing, to add that to your following question. So, you're looking to remarket the bonds. They're not new bonds, they're the same bonds, they're just in a different interest rate mode. That's a "remarketing".

If I have the ability and authority to consider refinancing in the taxable market, that would be a "refinancing", because those bonds, the current floating rate bonds, they would have to be called in and they would have to be paid off and retired with a new issue of bonds. And, those new issue of bonds would be, by definition, "taxable", not tax-exempt. So, yes, the authority parallels what's already there in the Series A tax-exempt bonds.

Q. Thank you. This question is regarding the Company's response to Staff's Question Number 8. With respect to the Series D and E bonds, please explain under what circumstances PSNH would opt to issue bonds with a 40 year maturity, as opposed to the current remaining 10 year maturity?

A. (Shoop) Yes. This is just -- this is really just based on market conditions and investors' appetite, and where you might be able to get the best interest rate. Now, having said that, in a normal sloping yield curve, 30 year debt is going to be higher coupon than 10 year debt, it's going to be higher coupon than seven year debt and five year debt, *etcetera*. But that's not always the case. There can be an inverse relationship. Or, you could say, you know, there's this really strong investor demand for 30 or 40 year paper, so strong that you really should consider it, because you might be able to, you know, shave 5, 10 basis points off the coupon. And, why that would be is, you know, maybe there's just a lot of paper in the market, investors may have just bought a lot of similar paper, and their portfolios are just full up on this particular kind of paper. And, they say, "Jeez, I would love to do that, but I wish you could have bid it in 10 years or 30 years or maybe even consider 40 years. So, again, this isn't an obligation to do it. We're just trying to be prepared as well as we can be to synch up to investors as what they would like to buy at that time.

Q. Thank you. This question is regarding the Company response to Staff Question Number 10. The Company's testimony stated on Page 235, and that would be Bates stamp Page 235, I expect. Yes, that is correct. That it is planning to amortize any previously incurred unamortized issuance expenses over the term of the new bonds, as opposed to the remaining life of the current bonds. The testimony also referred to the general instructions found in the FERC, Federal Electric Regulatory Commission, Uniform System of Accounts, where it states that, "once an election is made, it shall be applied on a consistent basis." Does the "consistent basis" wording apply individually to each series of bonds, meaning, if they were again refinanced in the future or to the Company as a whole?

A. (Shoop) I'm sorry, I didn't know if you were finished. My understanding is, it doesn't relate to a series by series, it's more of an accounting policy, a company accounting policy that you adopt. And, therefore, you consistently apply that.

Q. Thank you. Number 7, our Question Number 7, relates to the Company's response to Staff Question Number 11.

The attachments showed two vintages of interest rate forecasts from Global Insights, one dated November 2010 and the other dated January 2011, correct?
A. (Shoop) Yes.
Q. These attachments were used to look to the future of where the interest rate applicable for the Series A bonds is headed, correct?
A. (Shoop) It's a forecast of interest rates, from a very reputable organization, but it's merely that, a forecast of interest rates.
Q. So, it wasn't prepared specifically for the purposes of forecasting for the Series A, but rather as an instrument for all of the classes of bonds?
A. (Shoop) Exactly. Interest rates in general.
Q. Interest rates in general.
A. (Shoop) According to this forecaster, this is their estimate of those various interest rates.
Q. Thank you. In general, would you agree that the trend in the interest rates, even those that would be applicable to Series D and E bonds, is increasing?
A. (Shoop) You know, I really -- I really, you know, I find that just really hard to answer, because it's just impossible to do that. I mean, I think we can all look and say, "well, you know what, it's been increasing

over the past several months. Don't you think it's going to increase tomorrow and the next week and the next week? And, maybe this forecast will bear out. But I just can't say that. As we talked about earlier, things can happen, interest rates can change, the world and the U.S. markets can change, and the interest rates will change, you know, along with it.

Q. Thank you. This question is in relation to the Company's response to Staff Question Number 13. Could you please explain the current status of the MBIA insurance policy, and whether its existence is having an adverse impact on the current interest rate of the Series A bonds?

A. (Shoop) Yes. As the response explains, the Series A bonds are insured with this MBIA policy. The Company is now called "NPFGC", "National Public Finance Guaranty Corp.", I believe is the name of it. They do insure the bonds, the full principal and interest on the bonds. This auction rate is a failed process, though. There's just not supply and demand that clears the markets. So, instead of every 35-day you having a normal, healthy auction, where bidders come in and bid the interest rates, and they're set at a clearing price, there's a failed auction. The documents provide for a failed auction. And, if there is a failed auction, this is how we're going to set the rate. And, the methodology to set that rate is based on the 90-day commercial paper, and then it's multiplied by this auction multiple, based on the insurer's credit rating. As you can see in that response, they're currently rated a BBB. So, you have to multiply that 90-day commercial paper rate by 200 percent. It's still a very low number, as I mentioned. It was -- 0.3 was the actual rate. So, the 90-day commercial paper rate is actually 0.15, times 200 percent, gives you the 0.3. And, as you can see, as they -- if they step down to below BBB, that auction multiple is going to go to 225 basis points, 225 times. So, that's all the further that it could go. But it could be worse than that, and that's what I commented earlier. Many investors just don't want the paper. They don't care about the rate. They just don't want any association with the insurance company. Not all investors, but certainly some. So, it is a detractor in some cases.

Q. Can the Company terminate the policy without refinancing or remarketing the bonds?

A. (Shoop) There's a possibility. We've not had direct conversations with the insurer. Though, through some indirect conversations with commercial banks, there have been companies who were able to negotiate a termination payment and, in essence, eliminate the insurance from the bonds. And, you could do that under their existing interest rate mode, in this case, floating tax-exempt.

Q. So, it can be expected that the contract can be renegotiated in the context of a unilateral termination by PSNH, in exchange for a payment of some kind?

A. (Shoop) I believe that that's true. And, I have been told that other companies have so negotiated. But, again, I've not had direct conversations with them in regards to that.

Q. Thank you. The following two questions are specifically for Mr. Steve Hall. Excellent. I apologize, just one of these would be specifically for Mr. Steve Hall. The second could be answered by either gentlemen. Mr. Hall, in your testimony, you provided calculations showing the rate impacts of the various proposed refinancing transactions. In those calculations, you also concluded that the impact of the Series A refinancing would slightly increase the Energy Service rate by two cents -- 0.02 cents per kilowatt-hour. Was that merely an illustrative

calculation?
A. (Hall) Yes, sir, it is. And, the reason is that, as Mr. Shoop testified in his opening statement, we wouldn't refinance the Series A issuance unless there was a net present value savings to customers. And, not knowing what interest rates might be on that new issuance, I just didn't have any other information to use to calculate this impact. So, I did an illustrative type calculation.
Q. And, so, as has been stated in the past by the Company, if there were an adverse rate impact, the Company would not pursue the Series A refinancing, is that correct?
A. (Hall) Yes, sir. It is.
Q. Thank you. For the next question, which could be directed to either Mr. Hall or Mr. Shoop, I would like to approach the Bench and point them to the Staff recommendation that was recently made on this docket. It was dated January 3rd of 2011. And, Mr. Mullen made a statement in this paragraph, which I will read out, if it's appropriate. "In relation to its review of PSNH's Petition, as well as the requested waiver, Staff also makes the following observation: PSNH's recent financing petitions, whether for new debt or to refinance existing debt, contain so many financing

options varying in terms of structure, maturity, and other substantive details that the menu of options actually complicates the review of the petitions. For instance, in the current proceeding, although PSNH did not provide a draft Loan and Trust Agreement for tax-exempt financing, and PSNH actually notes that it is unlikely to use this category of financing, the time needed to review information related to tax-exempt financing, in order to prepare for the unlikely event that tax-exempt debt is issued, is burdensome, and is illustrative of the need for more specificity in PSNH's financing filings, in contrast to PSNH's request for flexibility. While some degree of flexibility on the part of the Commission in its review of these financing dockets can be warranted and even advisable, at some point the definition of "flexibility" is stretched to an extreme beyond usefulness. For future filings, Staff is of the opinion that, if PSNH wishes to hold fast to its requests for flexibility, then it should be prepared to file draft governing documents covering all of its various options."

Now, certainly, Staff can note that relief was provided in the form, by the Commission, of granting, a partial granting of a limited waiver of informational requirements on this docket. However, Staff would be interested in knowing how the Company plans to respond to this request on the part of Mr. Steve Mullen in the future, and how to provide greater specificity in its future filings?

A. (Shoop) Those are good questions, and I appreciate the comment. I think, though, you have to just walk through the opportunities that PSNH could consider in a refinancing or a remarketing. The last thing I would like to do is, because I think maybe something's unlikely, find out that, in fact, "you were wrong, Randy. It's exactly what investors want." And, now, I find myself in a situation where I didn't ask the Commission for that authority. In fact, I would say I wouldn't even have been prudent in exercising my responsibilities as a Treasurer. I have the opportunity to come to the Commission and I asked them what I think is going to happen. I think I should be asking the Commission for authority to do a broad range of very traditional capital markets activity. So, when the opportunity does come up, I can look at tax-exempt or I can look at taxable, and decide, together with investment bankers, what market makes the most sense. It's nice having the option to do it. If you just find yourself in a situation where, but for the authority, this would have been a really good thing; not a situation that I want to be in.

Now, the downside of that is, and you do have to go through the testimony and you do have to kind of get yourself through tax-exempt and taxable, and little nuances of each market, as we talked about today. Whether it's maturity dates or whether it's IRS code, or whether it's floating or fixed, or whether it's insured or not insured. So, there's certainly nuances to each market. But the intent clearly is not to make it confusing. And, I think, as you walk through it, it becomes more clear. But you have to go down a steady path to understand what market you're talking about, and what are some of those peculiar nuances about a particular market? Because, I think, as you get to the end of the day, it's not that difficult. And, you have the option to make a wise decision. Without it, you don't have the chance to even make that decision.

Q. So, it would be fair to say that, in the view of the Company, regulatory prudence dictates requesting a possibly wide range of menu options as part of the refinancing authority, and to prevent a situation in which the markets might shift, and the Company's preferred course of action at the time of requested approval does not necessarily jibe with what is best for the ratepayers. Is that what you're trying to say?

A. (Shoop) At any one given time. If I, you know, caucus with my investment banks at 9:00 this morning, and together we said "We should do this. So, you're at the Commission in the next hour, ask this." And, if I could get that authority, you know, we'd say "okay, this is live time. We're getting a live decision in a live market." And, I would say, "yes, we could do that." We could be specific with the Commission, in terms of what I would be asking for.

But we can't do that, and we know there's a lag in time in the process. And, you know, whether that takes 30 days or 60 days, I can't hold interest rates, I can't hold investors' appetite for that paper. So, I've got to be flexible and I've got to respond. And, the only way I can respond is to have, I won't call it a "wide range", I would call it "the tools necessary", traditional tools to do my job. Not unlike the electrician, who doesn't know exactly what tools he's going to be needing today, but it doesn't hurt to have those normal tools in the tool

bag. I see it very much the same way.
Q. Either gentlemen can try to answer this question. Would you be able to provide the exact succinct description of what PSNH is requesting that the Commission approve?
A. (Shoop) I think I can. I think it's in the testimony already. I'm asking for the ability to, in the Series D and E bonds, consider refinancing those bonds as taxable paper. In the case of the Series A bonds, I'm asking for the authority to refinance those bonds as taxable paper. And, obviously, there's other asks in there, as it relates to the MBIA insurance policy or as it relates to the other items in there. But, in essence, we're just looking to issue the bonds, in perhaps a taxable or tax-exempt market, depending on which ones you're talking about.

MR. SPIEDEL: Thank you. I think that would be all this morning. And, we would like to dismiss the witnesses. Thank you.

CHAIRMAN GETZ: Commissioner Ignatius.

CMSR. IGNATIUS: Thank you. First, Mr. Shoop, thank you for your summary at the beginning. I found that helpful. And, I confess, I got a little tangled up in reading the testimony.

BY CMSR. IGNATIUS:

Q. On the assumption that there is some combination of exercising options that are laid out here if your requests are approved, during the period of the rate case settlement, I guess, Mr. Hall, how would any savings that accrue from these actions be worked into rates? I know you stated that they can't be done during the period of the rate case settlement terms. But we're at the end of the -- let's assume we're at the end of that settlement term, some of these actions have been taken. So, what would the calculations be and would ratepayers seeing any increased savings?

A. (Hall) I was referring to and I assume you're referring to distribution rates?

Q. Yes.

A. (Hall) And, essentially, what these refinancings will do is lower PSNH's overall cost of capital. Cost of capital, of course, is made up of two components. It's a weighted average cost of equity and debt. Weighted average cost of debt is a known amount. All you do is simply look at all of the debt issuances and weight the interest rates and come up with a number. This refinancing or these refinancings would change one of the components of that cost of debt calculation. And, therefore, what it would do is reduce PSNH's cost of debt and, therefore, reduce PSNH's overall cost of capital. When we get to the next rate case, as a result of a lower overall cost of capital, the return applied to PSNH's rate base would be reduced. And, therefore, those savings flow through to customers after the next rate case.

Q. Thank you. Are you asking for authority through December 2012 in all of the requests in the Company's Petition or are there any that extend to longer than the 2012 date?

A. (Shoop) Right. The Series D and E is through 2012. The Series A is through 2021. The only difference being, we can already remarket them through 2021. So, it seems to me a parallel ask is to allow the authority to consider refinancing them straight through 2021.

Q. And, why the limitation to 2012 in the Series D and E?

A. (Shoop) It was frankly just a period of time where we could provide some flexibility to exercise the transaction. If you -- you can go too early and say, you know, "how about June of 2011?" I just don't think it provides a big enough window of opportunity for discussions and, you know, in terms of the opportunity to do something.

Oh, sure. Yes. Steve was just saying, if the time frame is limited, and I think I said it essentially anyhow, we could miss that opportunity. So, if we just ask for June of 2011, you know, and we get to June of 2011 and something is happening, interest rates are doing something, we say, "Board, you know what? If we had just asked for another six months of authority, perhaps this would have come around to a different answer." So, it's just a window of time.

Q. And, you still have that problem if you pick December 2012. But, in your view, you've got to pick some sort of a deadline line --

A. (Shoop) You're absolutely right.

A. (Hall) Yes.

Q. You stated that the net present value on the -- I guess it's the D and E bonds, is dropping as interest rates have gone up?

A. (Shoop) Yes.

Q. Do you know, you said that, if, under current rates, it would produce less than 13 million, do you have an actual number?

A. (Shoop) I don't have an actual number. We did provide a response to rates at January 3rd, and that number was about $16 million. I do know rates have gone up since then. And, I've just -- $13 million is kind of a round area. But they clearly have gone up and net present value has gone down.

CMSR. IGNATIUS: Thank you. Nothing else.

CHAIRMAN GETZ: Anything further, Ms. Shively?

MS. SHIVELY: Could I confer with the witnesses for just a moment?

(Atty. Shively conferring with the witnesses.)

MS. SHIVELY: I have no questions.

CHAIRMAN GETZ: Thank you. Then, the witnesses are excused. Thank you, gentlemen.

WITNESS HALL: Thank you.

WITNESS SHOOP: Thank you.

CHAIRMAN GETZ: Let me note one thing on the exhibits. I think I had said originally Exhibit 4, I miscounted, had "eight data requests", I think has seven. But, in any event, is there any objections to striking the identifications and admitting the exhibits into evidence?

(No verbal response)

CHAIRMAN GETZ: Hearing no objection, they will be admitted into evidence. Anything before opportunity for closings?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then, Mr. Traum, any comment from the OCA?

MR. TRAUM: No thank you, sir.

CHAIRMAN GETZ: Okay. Mr. Speidel.

MR. SPIEDEL: Yes, Mr. Chairman. Staff certainly supports opportunities for utilities to refinance their debt, and recommends that PSNH be allowed to refinance its debt, as long as it can demonstrate net present value savings.

Regarding the Series D and E bonds, Staff believes that current conditions in the financial markets would allow for advantageous refinancing. Regarding the request to have an authorization period that extends through December 31st, 2012 for those series of bonds, Staff defers to the Commission's determination as to the appropriate length of this time period.

Regarding the Series A bonds, although the current variable interest rate is attractive, considering the expected upward trend in interest rates, Staff believes it would be advisable to provide PSNH with the ability to refinance the Series A bonds in the future and lock in a fixed rate. Although it is uncertain at what point in the future any such refinancing would take place, if at all, Staff notes that providing such ability would be similar to the existing authorization for the Series A bonds to be remarketed at any point in time. Again, such refinancing would be done only if PSNH could demonstrate net present value savings.

As for the MBIA policy, Staff recommends that PSNH be allowed to terminate the policy, as long as it can be done in a cost-effective manner. Thank you.

CHAIRMAN GETZ: Thank you.

CMSR. IGNATIUS: Mr. Hall, you may want to --

CMSR. BELOW: Mr. Speidel, I have a question, in terms of Staff's recommendation there. How would the Company demonstrate net present value for the -- is it the Series A bonds, where they're on a variable short-term monthly, 35-day variable rate that's very, very low, and, if they were to convert it to a fixed rate, it would be based on a forecast or expectation that the cost of that variable rate over the remaining term is going to go up. But it's fundamentally unknowable what that will be for the remaining term. How would the Company demonstrate net present value by converting a short-term variable rate to a longer term fixed rate? I can understand that with the Series D and E, where they're already fixed, so you can compare what it is for the remaining term, under the current terms versus new financing terms, but how would you do that with the other series, the Series A?

MR. SHOOP: If I could add or --

CHAIRMAN GETZ: Mr. Shoop.

MR. SHOOP: Okay. You're exactly right, that's a difficult thing to do, because it assumes you know what's going to happen with interest rates. You're very correct in saying the interest rate on the floating securities today is 0.3. Let's just say, if we could fix those out today at let's just call it 5 percent, to have a number, a reasonable number, through maturity. Well, you don't exactly know what's going to happen to that floating rate. For all we know, that rate's going to stay the same way it is for the next ten years. And, that's the exact conundrum that I think you find yourself in. Any point of in time, if interest rates, short-term interest rates continue to rise, and then you put that multiple, two or two and a half times, you could quickly find a scenario, in fact, you could even point to that one forecast, which would suggest interest rates are going to be maybe 3 percent, times two and a quarter, is upwards of

6 percent plus, and you could compare that against, you know, maybe a 5 percent that you could do today. But the calculation is impossible to do, without knowing for certainty what interest rates are going to do, how fast they're going to move, and what direction they're going to go. Because, as short-term rates go up, and you get that multiple effect, the long-term rate will go up as well. You won't be able to do at 5 percent. You'd be able to do it at 6 percent or 6 and a half percent, you're going to be chasing that.

CMSR. BELOW: So, what you're saying, you couldn't do that with certainty, but, presumably, you would be doing that based on some reasonable forecast, where you believe that, based on a reasonable forecast of future rates, there would be net present value savings that, in a sense, you believe are more likely or not to be realized?

MR. SHOOP: Absolutely. You just don't know if that, in fact, is going to turn out.

CMSR. BELOW: Okay.

MR. SPIEDEL: Well, Staff concurs with that explanation, the methodology. That, when you have a known interest rate environment, you will be able to make a conversion to a fixed rate using well thought out forecasts and well thought out strategic calculations about the future direction of interest rate movements. And, also, on a more important basis, to know the difference in interest rates between the variable rate at the time and the fixed rate that's being offered.

CHAIRMAN GETZ: Okay. Ms. Shively.

MS. SHIVELY: Yes. In this docket as we've gone over, the Company is seeking authority to refinance three series of Pollution Control Revenue Bonds through the issuance of new taxable or a tax-exempt debt. There's the 75 million in the Series D bonds maturing May 1st, 2021; 44.8 million of Series E bonds maturing May 1st, 2021; and 89,250,000 of the Series A bonds also maturing on May 1st, 2021.

The Company is seeking authority to refinance these bonds if the refinancing transactions result in a positive net present value savings for customers over the remaining terms of the existing bonds. The Company has asked for some flexibility in this refinancing. As Mr. Shoop pointed out, he is seeking authority to have the tools necessary to make the best choice on behalf of the customers and the Company.

The Company believes that the requested refinancing and the flexibility requested are in the public good and respectfully request that the Commission issue an order approving the transactions promptly, particularly in light of the movement of interest rates recently.

CHAIRMAN GETZ: Okay. Then, we will close this hearing and take the matter under advisement. Thank you, everyone.

(Whereupon the hearing ended at 11:07 a.m.)