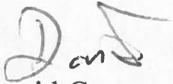


# STATE OF NEW HAMPSHIRE

Inter-Department Communication

NHPUC 25 JAN 17 AM 9:36

**DATE:** January 25, 2017  
**AT (OFFICE):** NHPUC

**FROM:**  David Goyette, Utility Analyst III 

**SUBJECT:** DE 16-844 New England Power Company  
Petition to Issue Long-Term Debt

**TO:** Commission  
Debra Howland, Executive Director

On November 3, 2016, New England Power Company d/b/a National Grid (NEP or the Company), filed a petition for authority to issue long-term debt, pursuant to RSA 369:1. In its petition, NEP stated that it seeks approval to issue new long-term debt not to exceed an aggregate principal amount of \$800 million for a period of three years, plus an option for a two-year extension, beginning on the date of the Commission's approval. NEP's filing included testimony, information required by Form F-4, and a request for waivers of Puc 308.12(b)(7),(8), and (9).<sup>1</sup> Staff recommends that the petition be approved and the waivers be granted.

## *Description of the Proposed Financing*

According to the petition, the Company will use the proceeds from the issuance of long-term debt for one or more of the following purposes: refinancing short-term debt with long-term debt, financing NEP's capital needs, construction of utility plant and properties, reimbursement of the treasury, funding maturing debt, and other corporate purposes including for the restructuring of NEP's capitalization with various debt securities and loans. The Company requested authorization to choose the attributes of debt it may issue, including for the types of debt, which could be notes, bonds, debentures, revolving credit, and bank loans; terms to maturity, which NEP said would be no shorter than one year and no longer than 30 years; the methods of issuance, including through public offerings or private placements; the issuers, which could be affiliates or third parties and with or without investment bankers; whether it is taxable or tax-exempt; and whether the interest rate is fixed or variable. The Company stated that the interest rate payable on new debt would vary and depend on market conditions, but believes that,

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<sup>1</sup> Puc 308.12(b)(7), (8), and (9) require a utility to file the following when seeking authority to issue securities:

- (7) Copy of the private placement memorandum for long term financing including any letter of commitment from a lender stating details of financing;
- (8) Copy of the proposed promissory note and mortgage; and
- (9) Copy of terms of new common or preferred stock.

based on historic rates included with its filing, it is reasonable to assume that the maximum rate would be 7 percent for a bond with a 30-year term.

NEP's petition contained a list of its debt obligations, which included long-term debt maturing on March 1, 2018 and November 1, 2020, in the amounts of \$79.3 million and \$186.5 million, respectively, and short-term debt in the amount of \$568.8 million, which combined, total \$834.5 million in debt obligations scheduled to mature within four years.

The Company requested an option for a two-year extension, provided that the Company continues to maintain a sufficient balance of total capitalizable plant against which to issue the debt securities and the purpose of the issuances continues to serve a legitimate purpose. NEP also submitted a request for waivers of 308.12(b)(7),(8), and (9), because, as it explained in its filing, the associated rule provisions, which apply to financing methods other than the issuance of long-term debt, are inapplicable.

In its petition, the Company noted that, although it is authorized as a public utility in the State of New Hampshire and subject to the jurisdiction of the Commission, because NEP's rates are regulated by the Federal Energy Regulatory Commission, the financing will not impact retail rates for customers subject to the Commission's jurisdiction and will not have a deleterious effect on NEP's capitalization. NEP, therefore, asks that the Commission consider its petition as a routine financing.

### *Staff's Recommendation*

Staff has reviewed the Company's petition and believes that, if the Commission were to grant the requested waivers, NEP's filing is complete and meets all requirements of Puc 308.12. It is Staff's opinion that, based on the total debt the Company reports is coming due within four years, \$834.5 million, the amount of long-term debt NEP has requested authorization to issue, \$800 million, is appropriate, because when combined with internally generated cash, the funds from newly issued debt should be sufficient to refinance debt maturing within four years. In regards to NEP's request for an option for a two year extension, Staff considers this a reasonable request, because a financing period extended from three years to five provides the Company with greater flexibility for timing its funding needs. Staff also maintains that the Company's requirement for continued authorization to issue debt during the period, "that it continues to maintain a sufficient balance of total capitalizable plant against which to issue the debt securities, and the purpose of the issuances continues to serve a legitimate utility purpose," are also reasonable.

As it has noted in financing requests by another transmission utility whose rates are also governed by FERC and not the NHPUC, Staff views NEP's financing as somewhat different from a "typical" financing petition to be considered by the Commission for an electric utility. Typically, such petitions are received from a Commission-regulated distribution utility, with resulting implications to the utility's capital structure, cost of capital and, therefore, revenue requirements. In this case,

however, while there are the same implications to NEP's cost of service, the resulting revenue requirements and customer rates fall under the purview of the FERC as NEP is a transmission utility. Staff notes, however, that, based on the pro-forma financial statements included with the supporting material, the financing will have only a minimal effect on NEP's capital structure, reducing the debt to equity ratio slightly, from 57% debt to 43% equity prior to the financing, to 56% debt and 44% equity after the financing.

In summary, Staff believes that NEP's requests, for authorization to issue a maximum aggregate principal amount of new long-term debt not to exceed \$800 million and for flexibility in the types, issuance methods, and other attributes of obligations it may assume or issue, during the three year period following the date of the Commission's approval letter, with an option for a two-year extension, provided that it maintains a sufficient balance of total capitalizable plant against which to issue debt and the purpose of the issuances serves a legitimate utility purpose, are reasonable. Staff recommends that the Commission grant the requested waivers and authorize NEP to issue up to \$800 million in new long-term debt, for a three-year period, with an option for a two-year extension, beginning on the date of the Commission's approval letter, provided that it maintains a sufficient balance of total capitalizable plant against which to issue debt and the purpose of the issuances serves a legitimate utility purpose.

cc: Paul Dexter  
Service List

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 16-844-1      Printed: January 25, 2017

**FILING INSTRUCTIONS:**

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND  
EXECUTIVE DIRECTOR  
NHIPUC  
21 S. FRUIT ST, SUITE 10  
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.