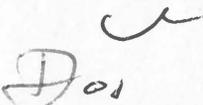


STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: June 24, 2019
AT (OFFICE): NHPUC


FROM: David Goyette, Utility Analyst III
SUBJECT: DG 19-090 Northern Utilities, Inc.
Petition for Approval of Financing
TO: Commissioners
Debra Howland, Executive Director

NHPUC 24JUN19AM9:34

Summary

Staff recommends that the Commission approve Northern's request to issue senior unsecured notes of up to \$50,000,000 at coupon rates not to exceed 5.50% by order *Nisi*. It is a routine financing and Northern will use the debt to pay off short-term debt incurred to complete capital projects.

Background

On May 10, 2019, Northern Utilities, Inc. (Northern) filed a petition for approval of financing, pursuant to RSA chapter 369. Northern stated that it seeks authorization to issue senior unsecured promissory notes in an aggregate amount not to exceed \$50 million. Northern's petition also requested authorization to incorporate the issuance costs into the overall cost of the proposed financing, which would be amortized over the term of the notes. Northern's filing included testimony of Douglas R. Diggins, Director of Finance at Unutil Service Corp, which provides various professional and administrative services to Northern, and information required by Form F-4. On June 7, 2019, Staff issued data requests to Northern and, on June 17, 2019, Northern responded to those requests.

Northern is seeking Commission approval to issue up to \$50 million of long-term notes to be sold at par through a private placement to institutional investors. Northern stated that it is targeting a term to maturity of 30 years and that the fixed coupon rate will not exceed 5.50%. The projected financing cost is approximately \$375 thousand and Northern is proposing to incorporate those costs into the new financing and amortize the cost over the life of the issuance. Northern explained that a 30-year maturity allows the Company to match its long-lived assets with the long-term average life of the securities while achieving an attractive and market-based yield.

Northern's placement agent has indicated that the market for the notes will be competitive. Based on the interest rate spread between U.S. Treasury (Treasury) rates

and comparably rated utilities as of May 3, 2019, the Company anticipates all-in coupon rates ranging from 4.30-4.50% for notes with a 30-year maturity. Northern stated that, subject to regulatory approval, it is seeking funding in September 2019.

Staff Analysis

Staff reviewed dockets and orders of prior Northern financing requests, examined the Maine Public Utilities Commission (MPUC) proceeding on Northern's proposed financing in Docket 2019-00102, reviewed Northern's response to Staff's discovery requests and also to those issued by MPUC Staff, and researched Treasury rates referenced in Northern's current request.

Northern's most recent long-term debt financing was one for \$50 million in senior notes, which were issued on November 1, 2017 and approved by the Commission in Order No. 26,003 (Docket No. DG 17-019). Since that date, through December 31, 2018, the Company had \$64.3 million of distribution system capital expenditures and, for calendar year 2019, has budgeted capital expenditures totaling \$61.4 million. In his testimony, Diggins explained that Northern uses internally generated funds and short-term borrowing from Unitil Corporation's credit facility to fund capital expenditures and, when borrowings grow to a sufficient level, the Company replaces short-term financing with long-term debt. Diggins asserted that the proceeds from the proposed notes will be used to refinance short-term debt, which was \$58.2 million as of December 31, 2018, meet sinking fund requirements of \$8.2 million in 2020, fund 2019 capital expenditures, and for other general corporate purposes.

The Company has requested \$50 million of unsecured long-term debt with a targeted 30-year term, and its placement agents indicated that a coupon rate ranging from 4.30-4.50% was implied based on a 30-year Treasury yield of 2.91% as of May 3, 2019. The high end of the indicative coupon rate for a 30-year maturity and proposed maximum rate of 5.50% is 100 basis points. Staff noted that there has been a gradual decline in the Treasury rate underlying the indicative rate during the prior three months to date. According to Staff's review of yield rates posted on the *Wall Street Journal* website on June 18, 2019, the 30-year Treasury has fallen during the period, from a high of 3.00% on April 22, 2019, to a low of 2.53% on June 6, 2019, and was 2.58%, on June 17, 2019.

The pro forma financials included with Northern's filing indicate that the debt-to-equity ratio, which was 53:47 on December 31, 2018, would remain the same just after the financing. Those financials also show that issuance of the notes at the maximum coupon rate of 5.50% would increase the weighted average cost of capital only slightly, from the current rate of 7.05% to 7.32%.

Overall, it is Staff's view that the financing is routine, the proposed use of funds is appropriate, the amount of the notes is not excessive, the cost to complete the financing appears reasonable, and the expected interest rate is consistent with that of other entities with similar credit ratings.

Staff's Recommendation

Staff has reviewed Northern's filing, and believes that it is complete and meets the requirements of Admin. Rule Puc 509.03. Staff recommends that the Commission approve, by order *Nisi*, Northern's authorization requests, to issue unsecured promissory notes as described in its filing and incorporate the cost of issuance for the financing into the overall costs of the notes. Staff also recommends that the Commission require Northern to file updates of the final amount of the issuance, pricing parameters, and the coupon rate once those are established and following the final closing and funding.

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