STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 27, 2020
AT (OFFICE): NHPUC

FROM: Jay E. Dudley, Utilities Analyst IV TCF

SUBJECT: DE 20-072 Public Service Company of New Hampshire d/b/a Eversource Energy Petition for Approval of Financing Transaction

TO: Commission
Debra A. Howland, Executive Director
Tom Frantz, Director Electric Division
David Wiesner, Director Legal Division

On May 18, 2020, 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 $200 million. PSNH's filing comprised testimony and attachments including information provided by Form F-4 under Rule Puc 308:12(b). Staff recommends that the petition be approved as submitted.

Description of Proposed Financing

PSNH proposes to issue and sell up to $200 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, 2020. The Company seeks authority to: (i) to refinance PSNH's existing short-term debt balance of $84.7 million (as of March 31, 2020)[1], and (ii) to fund, in part, approximately $345 million in planned capital expenditures and other working capital needs for 2020. As such, a portion of the request, approximately $84.7 million, does not represent new indebtedness for PSNH since it constitutes the refinancing of existing debt, whereas the remainder of approximately $113.42 million (after deducting $1.88 million in estimated issuance costs) constitutes new debt. 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 four hundred basis points (4.00%) 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, 2020, the Company requests approval of the proposed credit spread of 4.00% in order to provide sufficient flexibility in the event of unanticipated widening of credit spreads due to uncertainty or volatility in

[1] Testimony of Emilie G. O'Neil and Michael J. Dzialo at Bates 11.

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 March 31, 2020, 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 cost of debt (Attachment 2). Upon review, Staff concluded that the filing represents a routine filing request. PSNH estimates the cost of the bond issuance to be $1.88 million which includes ratings fees and an underwriting fee of 0.65%. PSNH calculates, on a pro forma basis, that the new debt of $113.42 million, plus the refinance of the 84.7 million in short-term debt, will result in an increase in annual interest expense of approximately $1.5 million for a total of $62.3 million, as compared with its current total interest expense amount of $60.8 million.[2] The combined effect of the debt issuance fee and the increase in interest expense results in a small reduction to PSNH's retained earnings of $1.1 million. However, despite the addition of new debt of $113.42 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% debt and 56% equity, resulting in 45% debt and 55% equity. PSNH represents that it expects to maintain a post-issuance equity ratio of 55% through additional earnings and capital contributions from Eversource Energy in 2020. Staff also confirmed PSNH's current bond ratings of A+ with Standard and Poor's, and A1 with Moody's Investors Service.

Staff's Recommendation

Staff 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 Staff's opinion that, based on the current total of outstanding long term debt reported by PSNH of approximately $951.7 million, the proposed refinance of existing debt in the amount of $84.7 million, plus new debt of $113.42 million, will have a modest impact on PSNH's capital structure, and the Company's cost of debt and revenue requirement. As such, Staff supports the Company's position that approval of the petition would be in the public good, and in conformance with the review standards of RSA Chapter 369. Therefore, Staff recommends that the Commission authorize PSNH to issue $200 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 debt, and to include the issuance of new debt to fund planned capital expenditures for 2020. Staff would support the issuance of an Order *Nisi* for the approval of this petition.

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[2] PSNH did not provide a projected rate impact for the increase in interest expense of $1.5 million, but indicated that due to the fact that the effective cost of the proposed long-term debt will be below the Company's current weighted average cost of long-term debt, the proposed issuance should provide a net cost reduction in relation to customer rates.

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