

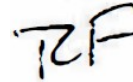
# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

**DATE:** August 19, 2020

**AT (OFFICE):** NHPUC

**FROM:** Jay E. Dudley, Utilities Analyst IV



**SUBJECT:** DE 20-096 New England Power Company d/b/a National Grid Petition for Approval to Issue Long-term Debt Securities and Request for a Waiver of Puc 308.12

**TO:** Commission  
Debra A. Howland, Executive Director  
Tom Frantz, Director Electric Division  
Mary Schwarzer, Staff Attorney  
David Wiesner, Director Legal Division

### *Summary*

On June 15, 2020, New England Power Company d/b/a National Grid (NEP or the Company), filed a petition for authority to issue long-term debt not to exceed an aggregate principal amount of \$1.1 billion. NEP's filing comprised testimony and attachments including information provided by Form F-4 under N.H. Admin. Rule Puc 308:12. Staff recommends that the proposed financing be approved as submitted.

### *Description of Proposed Financing*

NEP proposes to issue and sell up to \$1.1 billion in aggregate principal amount in new unsecured debt issuances (the Bonds) over the next three years from the date of the Commission's order in this docket. The Company seeks authority to: (i) refinance NEP's existing short-term debt<sup>1</sup>; (ii) fund, in part, NEP's planned capital expenditures estimated to be approximately \$355 million to \$450 million through 2024, (iii) fund maturing debt of approximately \$186.45 million due on November 1, 2020, (iv) fund estimated issuance costs of approximately \$10.3 million, (v) reimburse the treasury, and (vi) fund other corporate purposes including the restructuring of NEP's capitalization with various debt securities and loans. As such, a portion of the request, approximately \$186.45 million, does not represent new indebtedness for NEP since it constitutes the refinancing of existing debt, whereas the remainder of approximately \$913.55 million constitutes new debt. 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,

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<sup>1</sup> NEP performed an all-in pro forma calculation for the impact of the Bonds and not did not separate out the refinance of its existing short-term debt in the amount of \$133.1 million (*see* Petition at 2).

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. In addition, the Company is seeking authority to issue “green bonds” to continue NEP’s ongoing capital investments in eligible green projects that have positive environmental benefits.<sup>2</sup> NEP stated that the interest rate payable on the Bonds would vary and depend on market conditions, but believes that based on an analysis of current and historic rates included with its filing, the current interest rate for 30-year “A” rated debt is 3.01 percent and a reasonable estimate of the maximum rate would be 7 percent for a bond with a 30-year term. The final financing structure, terms and conditions, amounts, documentation, and rate will be determined at the times of issuance over the next three years.

The Company’s filing includes the direct testimony of Mr. Johnathan Cohen, Director of Treasury Business Partnering of National Grid USA Service Company, Inc. in a parallel Massachusetts petition, and Mr. Cohen’s affidavit adopting that testimony in this New Hampshire docket. The filings’ other attachments include its Form F-4 filing with exhibits demonstrating the impact of the proposed financing on UES’s balance sheet (Exhibit JC-8), income statement (Exhibit JC-9), statement of capitalization ratios (Exhibit JC-10), and weighted average cost of debt (Exhibit JC-11). NEP also provided its current bond ratings of A-with *Standard & Poor’s*, and A3 with *Moody’s Investors Service*.<sup>3</sup> NEP states that it believes, and therefore alleges, that the securities to be issued will be consistent with the public good.<sup>4</sup>

As a preliminary matter, NEP asked the Commission to waive the requirements of N.H. Admin R. 308.12(b) (7), (8) and (9) which, respectively, pertain to the filing of a private placement memorandum, a promissory note and the terms of new stock. NEP states that these requirements are inapplicable to the current circumstances and therefore a waiver would be in the public interest and would not disrupt the orderly and efficient resolution of this matter. *See* NEP Cover Letter (June 12, 2020).

For illustrative purposes, NEP estimated the cost of the bond issuance to be approximately \$10.3 million, which includes ratings fees, legal fees, and underwriting fees; however, because the Bonds will be issued in multiple offerings, those costs could vary. As a result, NEP requests that the actual costs and expenses of issuing the Bonds be deferred and amortized over the life of the New Issuance. The Company calculates, on a pro forma basis, that the new debt of approximately \$913.55 million, plus the refinance of approximately \$186.45 million in existing debt, will result in an increase in annual interest expense of about \$42.7 million. However, despite the addition of the Bonds of \$1.1 billion, NEP projects that after giving effect to the resulting pro forma

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<sup>2</sup> Petition (June 15, 2020), Direct Testimony of Jonathan Cohen on behalf of NEP in Massachusetts’ Department of Public Utilities, in D.P.U. 20-06 (NEP Petition for Authorization and Approval of the Issuance of Long-Term Debt) at 7-9; Affidavit of Jonathan Cohen (June 5, 2020).

<sup>3</sup> *Id.* at 6; *see also* NEP response to Staff 1-3, Attachments STAFF 1-3-2 (*S&P*) and 1-3-1 (*Moody’s*) (ratings agencies’ reports including analyses and ratings)

<sup>4</sup> Petition (June 15, 2020) Affidavit of Jonathan Cohen (June 5, 2020).

adjustments, the proposed financing will not have a significant impact on the Company's current capital structure of 30.4 percent debt, and 69.6 percent equity, as it will result in a revised capitalization of approximately 36.12 percent debt and 63.88 percent equity.<sup>5</sup> Commission Staff (Staff) confirmed NEP's current bond ratings.

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 (FERC), 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 supports NEP's request for waiver of the requirements of N.H. Admin R. 308.12(b) (7), (8) and (9) which, respectively, pertain to the filing of a private placement memorandum, a promissory note and the terms of new stock, for the reasons stated by the Company. *See* NEP Cover Letter (June 12, 2020) (which Staff views as a motion for waiver).

As noted above, NEP is a transmission utility whose rates are governed by FERC and not the NHPUC. Consequently, Staff views NEP's financing request 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 that directly impact the New Hampshire ratepayer. 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 Staff's review of the pro-forma financial statements included with the supporting documents, the financing will not have a material effect on NEP's capital structure.

In summary, Staff has reviewed the Company's petition and supporting documents and believes that NEP'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 NEP, the proposed refinance of existing debt in the amount of \$186.45 million, plus new debt of approximately \$913.55 million, will have a limited impact on NEP'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 grant the waiver NEP requests, and approve NEP to issue \$1.1 billion in long-term debt, according to the proposed terms, amounts, and interest rate outlined above, for the purposes of refinancing and replacing a portion of its existing debt, and to include the issuance of new debt to

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<sup>5</sup> *Id.* at 4.

fund planned capital expenditures for 2020 through 2024. Finally, Staff recommends that NEP inform the Commission about the results of its debt issuance.

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