

DT 00-291

VERIZON NEW ENGLAND, INC.

Petition for Authority to Issue Long-Term Debt Securities

Order Nisi Approving the Issuance of Securities

O R D E R N O. 23,715

June 1, 2001

I. COMPANY PETITION

On December 22, 2000, Verizon New England Inc. (Verizon New England or Company), filed a petition with the New Hampshire Public Utilities Commission (Commission) pursuant to RSA 369:1, seeking authorization to issue up to \$2 billion in long term debt securities (New Debt) through December 31, 2005. The Company also requested approval *nunc pro tunc* of a \$200 million three-year note that the Company issued to Verizon NSI Holding Inc. on June 30, 2000. On January 23, 2001, in response to a letter from the Commission Executive Director, Verizon New England supplemented its original filing to ensure full compliance with the requirements of NH Puc Admin Rule 407.08.

Verizon New England intends to issue New Debt at times and in increments as appropriate given the market conditions and other factors. The Company proposes to issue New Debt at prevailing market interest rates and may offer it for sale to the public through underwriters or on a private

placement basis which may be with affiliated entities or non-affiliated entities. The Company estimates the costs associated with issuance and sale of New Debt to be \$18,262,250. Verizon New England projects the average expected rates on New Debt will be 6.85%.

Verizon New England proposes to use up to \$807 million of the proceeds from the New Debt to reduce the Company's short term debt. The Company's short term debt as of November 30, 2000 totaled \$870 million or 12.1% of the Company's \$7,196.2 million investment in net telecommunication plant. NH Admin. Rule Puc 507.08 provides that no utility shall issue or renew short-term debt if such "debt exceeds 10% of the utility's net fixed plant without prior Commission approval pursuant to Puc 201.05." The Company's \$870 million in short term debt consists of \$788.5 million in notes payable and \$100 million in current maturities of long term debt. The effective cost rate is 6.588% payable to Verizon Network Funding.

The Company also proposes to refinance \$635 million of long term debt issues that are maturing during the period January 1, 2001 to December 31, 2005. The effective cost rate on the maturing issues is 6.58%.

Verizon New England also proposes to retire \$650

million of callable long term debt with maturity dates later than December 31, 2005, if market conditions warrant it. The Company election to refund an issue will be conditioned on a net present value analysis on the after-tax cash flows related to the transaction. The Company avers it will only refund an issue if the cash flow calculation yields a positive net present value. The effective cost rate on the coupon debt is 7.06%. Total after-tax call premium for retiring all the issues is projected to be \$8.7 million which is 60% of the pretax call premium amount.

Lastly, Verizon New England is proposing to apply proceeds from the New Debt to fund the Company's ongoing operations and construction program. The Company estimates its capital spending to be approximately \$1.4 billion to \$1.5 billion each year for the period 2001 to 2005. Of this amount New Hampshire's portion will be approximately \$145 million to \$170 million for the same time period. Information provided in the filing indicated that for nine months ended September 30, 2000 91% of the Company's capital expenditures were in the areas of Central Office Equipment and Cable & Wire Facilities.

As part of the petition, the Company is requesting retroactive Commission approval for a three-year note in the

amount of \$200 million with Verizon NSI Holding Inc. The note has a variable interest rate that is reset quarterly based on 20 basis points over 3-month LIBORs. An initial rate on the note was set at 6.98%. Verizon New England in a report to the Commission dated November 9, 2000 stated that the note was used to retire short term debt. As a result, the Company was able to reduce its short term debt below 10% of its net telecommunications plant as of June 30, 2000 and also was able to comply with Puc Rule 406.04. The Company avers that "the transaction had no adverse effect on the Company's bond rating or other indicators of the Company's financial condition, and is not expected to affect its cost of borrowing." In response to data request NHPUC Staff 1-3, Verizon New England stated that "at the time the long-term note was issued, the Company believed that since the transaction was an arrangement for financial[] or any other services under RSA 366:3, it did not require advance Commission approval." Based on the foregoing the Company is now requesting approval for \$200 million three year note if its assumption was incorrect.

In accordance with Puc Rule 407.08(d) Verizon New England provided an affidavit which stated that the "company believes and alleges that the securities to be issued will be consistent with the public good and it is entitled to issue

those securities under RSA 369 for the purposes set forth in the petition."

II. COMMISSION ANALYSIS

We have reviewed Verizon New England's request for authorization to issue \$2 billion in securities to enable the retirement of more expensive long term debt; reduce short term debt in compliance with Puc 406.04; and provide for an \$8.63 billion in capital expenditures for the years 2000 to 2005. Analysis of the filing reveals anticipated savings in interest expense of approximate \$9 million on an annual basis as a result of the financing. The Company has provided a balanced financial plan that not only will provide funding for Verizon New England's five year Capital Plan, but also will place the Company in the position to reduce their short term debt to meet the 10% cap as required by Puc 406.04, and allow the company to refinance high coupon debt when it is financially prudent based on the market conditions. We are, therefore, satisfied that the granting of the Verizon New England authorization to issue \$2 billion in securities for reasons as stated in the petition is consistent with the public good. However, approval of this financing should not be construed as

a determination that the five year Capital Plan is the optimal level and scope of investment to meet the needs of Verizon's New Hampshire customers.

With regard to the Company's request for retroactive authorization of a \$200 million three-year note that Verizon New England issued to its affiliate Verizon NSI Holding Inc. on June 30, 2000, we are not convinced that the Company appropriately explained why RSA 369:1 did not apply and our approval was not required. New England Telephone and Telegraph Company, the predecessor to Verizon, was incorporated in 1883 and has been a utility in this state since the Commission was established in 1911 by the Legislature. Verizon and its predecessors are therefore not unfamiliar with our statutes and rules. While in this instance we will give approval *nunc pro tunc* of the \$200 million note for the reasons stated in the petition and because we find it consistent with the public good, we strongly recommend that the Company familiarize itself with the proper filing requirements of this Commission.

Based upon the foregoing, it is hereby

ORDERED NISI, that Verizon New England is hereby authorized, pursuant to RSA 369, to issue up to \$2,000,000,000 in long-term securities through December 31, 2005; and it is

FURTHER ORDERED, that Verizon New England's request for approval of a previous \$200,000,000 three-year note issue to Verizon NSI Holding, Inc. on June 30, 2000 is approved; and it

FURTHER ORDERED, that the Company is authorized to recover as a part of any new financing the costs of the associated transactions; and it is

FURTHER ORDERED, that the proceeds from the sale of said securities be used solely for the purposes described in this Order; and it is

FURTHER ORDERED, that on January 1, and July 1 of each year the Company shall file with this Commission a detailed statement, duly sworn by its Treasurer, showing the disposition of the proceeds of its financing activities until the whole of such proceeds have been fully accounted for; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than June 8, 2001 and to be documented by affidavit filed with this office on or before June 15, 2001; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than June 18, 2001; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than June 22, 2001; and it is

FURTHER ORDERED, that this Order Nisi shall be effective July 2, 2001, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that Verizon New England shall file with this Commission executed copies of all documents pertaining to all financing transactions under this approval no later than 14 days subsequent to the closing of the transaction.

By order of the Public Utilities Commission of New Hampshire this first day of June, 2001.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary