

DG 03-080

NORTHERN UTILITIES, INC.

Petition for Authority to Issue Securities

Order Approving the Issuance of a \$60 million
Unsecured 10-year Promissory Note

O R D E R N O. 24,175

May 22, 2003

On March 31, 2003, Northern Utilities, Inc. (Northern), a public utility organized and existing under the laws of the State of New Hampshire and primarily engaged in the business of distributing natural gas in certain cities and towns in New Hampshire and Maine, filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Authority to Issue and Sell an Unsecured 10-year Promissory Note, not to exceed \$60,000,000, to its affiliate, NiSource Finance Corporation. Northern requests authority, pursuant to RSA 369:1, 3, and 4, to issue and sell the proposed long-term notes. The proceeds will be used to refinance Northern's outstanding long-term debt of \$60,000,000, approved by the Commission in 2001 and set to expire June 14, 2003. *Northern Utilities, Inc.*, 86 NH PUC 318 (2001). As of December 31, 2002, Northern's total outstanding long-term debt amounted to \$66,666,667. Northern avers that the proposed note would be the most cost-effective and timely method of refinancing the outstanding long-term debt expiring June 14, 2003.

The current debt carries a 5.75 percent interest rate. The interest rate on the proposed Note will be set by adding the ten (10) year Treasury yield (as reported in the Federal Reserve's H.15 Statistical Release) and the yield spread on ten (10) year maturities for Baa2/BBB rated utilities (as reported by Reuters Corporate Spreads for Utilities), on the day the Note is issued, not to exceed 6.5 percent.

Use of the above formula to set the interest rate insures the rate will be equal to, or lower than, the market rate and that the affiliate transaction is truly 'arms-length,' that is, at a rate no higher than what Northern would pay an independent third-party. As stated in Staff's letter dated May 19, 2003, as of May 15, 2003 that rate would have been 4.796 percent. Based on current market yields, the interest rate on the proposed note should compare favorably with the 5.75 percent interest rate on the existing note and could result in a substantially lower rate. In no event will the rate exceed 6.5 percent.

The \$60,000,000 of long-term debt to be refinanced was included in the capital structure approved in Northern's last general rate case and approved by the Commission. *Northern Utilities, Inc.*, Order No. 24,075 (October 28, 2002). The refinancing of the \$60,000,000 note, with the strong possibility of an interest rate decrease and any interest rate increase

capped near the rate currently being paid, will have no impact on Northern's capital structure and is likely to reduce Northern's weighted cost of capital. Any reduction in the cost of capital would directly benefit Northern's ratepayers in a general rate case. Assuming issuance of the proposed note, Northern calculated the capital structure would be 58.2 percent common equity, 34.0 percent long-term debt and 7.8 percent short-term debt, as of December 31, 2003.

On May 6, 2003, the Maine Public Utilities Commission approved Northern's Application for Approval for Issue of Securities to an Affiliate involving the proposed \$60,000,000 note. *Northern Utilities, Inc.*, MPUC Docket No. 2003-222 (May 6, 2003).

Northern's filing included a certification, pursuant to NH Admin. Rules Puc 509.04(d), that Northern believes that the securities to be issued will be consistent with the public good and that it is entitled to issue said securities under RSA 369:1 for the purposes set forth in its petition. Staff indicated its support of Northern's Petition in a letter filed with the Commission on May 19, 2003.

We have reviewed Northern's filing in this proceeding and find that the proposal will enable Northern to refinance existing debt at, or below, current market rates. Accordingly, pursuant to RSA 369:4, the petition is consistent with public

good and is approved.

Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities, Inc.'s Petition for Authority to Issue a \$60,000,000 Unsecured Ten-year Term Promissory Note and sell at face value to its affiliate NiSource Finance Corporation is APPROVED; and it is

FURTHER ORDERED, that the interest rate is to be set by adding the ten (10) year Treasury yield (as reported in the Federal Reserve's H.15 Statistical Release) and the yield spread on ten (10) year maturities for Baa2/BBB rated utilities (as reported by Reuters Corporate Spreads for Utilities), on the day the Note is issued, not to exceed 6.5 percent; and it is

FURTHER ORDERED, that the proceeds be used to refinance the \$60,000,000 Unsecured 2-year Promissory Note due to expire June 14, 2003; and it is

FURTHER ORDERED, that Northern, within 10 days of the closing, shall submit a copy of the signed Promissory Note.

By order of the Public Utilities Commission of New
Hampshire this twenty-second day of May, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary