

DT 05-020

VERIZON NEW HAMPSHIRE

Petition for Exemption from Administrative Rules Limiting Short-Term Debt

**Order *Nisi* Approving Stipulation
Providing Exemption with Conditions**

ORDER NO. 24,483

July 1, 2005

I. BACKGROUND

Verizon New England Inc. (Verizon NE) is a New York corporation with its principal place of business in Boston, Massachusetts. Verizon New Hampshire (Verizon NH) is the name under which Verizon NE does business as a public utility in New Hampshire, providing communications and related services to customers in the state. Verizon NH does not borrow funds on its own, but only through Verizon NE.

On February 4, 2005, Verizon NH filed a petition with the New Hampshire Public Utilities Commission (Commission) seeking a permanent waiver of N.H. Code Admin. Rules Puc 414.03, which limits short-term debt to 10% of the net depreciated value of Verizon NE's plant. Puc 414.03 was adopted pursuant to RSA 369:7, which authorizes the Commission to promulgate rules regarding reasonable amounts of short-term debt that a utility can issue without Commission approval.

Verizon NH stated its commitment to continue short-term borrowing, through Verizon NE, from Verizon Network Funding Corp. (VNFC) and/or similarly structured centralized cash management pools. Pursuant to Puc 201.05, Verizon NH's exemption from Puc 414.03 must be found in the public interest and not disrupt the orderly proceeding of the Commission. As of September 30, 2004, Verizon NE's short-term debt was approximately

2.0% of its investment in net telecommunications plant. Verizon NH attested that Verizon NE would continue to borrow short-term funds, from VNFC funds at favorable rates, and that independent rating agencies would continue to monitor VNFC's short-term debt issues and overall financial condition.

As is the case with all the Verizon telephone operating companies, Verizon NE manages its commercial paper program on an aggregate basis through a centralized funding entity rather than on an individual operating telephone company basis. VNFC borrows commercial paper on behalf of the operating companies and lends funds to the operating companies via inter-company short-term notes. At the time of the petition, VNFC had the highest commercial paper ratings; from the three major rating agencies; P-1, A-1 and F-1 from Moody's Investor Service, Standard & Poor's and Fitch Ratings, respectively.

Verizon NH argued that the 10% limitation imposed by Puc 414.03 can cause premature refinancing of short-term debt with long-term debt, which can have an adverse impact on ratepayers as well as shareholders if long-term debt rates exceed short-term debt rates, which has historically been the case.

According to Verizon NH, rating agencies permit the operating companies to collectively maintain short-term debt balances well above 10% of total capital with no impact on credit ratings, in contrast to the Commission's limitation which is more stringent than that imposed by rating agencies for maintaining a prime commercial paper rating. Rating agencies do not have short-term debt guidelines for the individual operating companies. In Verizon NH's view, the Commission's rule is unnecessary because the rating agencies serve as a public monitor of Verizon NE's financing activities.

The Commission Staff (Staff) conducted a comprehensive review of the Verizon NH petition. On April 15, 2005, Verizon NH provided responses and supporting documents to Staff's data requests. On May 2, 2005, Verizon NH, the Office of the Consumer Advocate (OCA) and Staff held a Technical Session, which was followed by additional responses from Verizon NH. Based on the review, discovery and technical sessions, Verizon NH, OCA and Staff (collectively the Signatories), filed with the Commission a Stipulation Agreement (Agreement) on June 14, 2005.

II. STIPULATION AGREEMENT

The Agreement embodies the concurrence of the Signatories that Verizon NH's request for waiver of Puc 414.03, limiting Verizon NE's short-term debt to 10% of its net depreciated plant, be granted under the following conditions:

1. Verizon NE shall be permitted to issue or renew short-term notes, bonds or other evidence of indebtedness payable in less than 12 months, if said debt does not exceed 25% of the net depreciated value of Verizon NE's plant. Nine-month rolling averages of both short-term debt and net plant will be utilized in evaluating compliance with the 25% short-term debt limitation.
2. Verizon NH shall file a "Monthly Short-Term Debt Compliance Schedule" with the Commission and the OCA 45 days following the end of each month.
3. In the event that one of the three major rating agencies, Standard & Poor's, Moody's Investor Services, or Fitch Ratings Ltd., downgrades by one rating designation, any of Verizon Network Funding Corporation's (VNFC) short-term debt obligations, Verizon NH shall notify the Commission and OCA within 30 days of that event.

4. The Parties and Staff agree that the Commission has the right to revoke this waiver, with notice and opportunity for hearing, in the event there are any changes affecting VNFC that the Commission determines may have a material impact on the operations or finances of Verizon NH.

5. The terms of this stipulation and Verizon NH's exemption from Puc 414.03 will expire no later than December 31, 2008, which corresponds with the expiration of Verizon NH's authorization to issue long-term securities granted by Commission Order No. 24,365 (August 26, 2004).

6. The need for short-term debt monitoring, and any request for extension of the waiver of Puc 414.03 after December 31, 2008, will be addressed in Verizon NH's next petition for authority to issue long-term securities, which shall be filed no later than March 31, 2008. In its petition, Verizon NH shall outline its proposal to limit or waive short-term debt filing requirements.

The Signatories concur that the Agreement contains the entire agreement of the Signatories, and that the Agreement shall not be binding upon the Signatories if the Commission does not approve the Agreement in full and without modification or condition.

III. COMMISSION ANALYSIS

We note at the outset that the legislation associated with Puc 414.03 has undergone a number of changes since its implementation in 1929 when the legislature limited the amount of short-term debt issued without Commission approval to 40% of a company's stock par value, or 40% of book value if par value was at \$0.00. Then in 1951, the legislature changed the limitation to 10% of the "fixed capital account of the utility less accrued depreciation." Finally,

in 1981, the legislature removed the very specific 10% of net plant limitation and allowed the Commission to use its discretion, which would be based on “a reasonable amount” of debt relative to plant investment. In light of the information Verizon NH has provided regarding how Verizon NE borrows short-term funds, as well as the various rating agency guidelines, it appears that a waiver of Puc 414.03 at this time is not unreasonable.

We have reviewed the Agreement and we approve it as filed. Access to short-term debt at rates that are lower than long-term debt is a benefit to consumers. We agree with the Signatories that the conditions imposed provide for a fair and reasonable method of monitoring the amounts of short-term debt that Verizon NE incurs. We find that the requested waiver meets the requirements of Puc 201.05, in that it serves the public good and shall not disrupt the orderly proceedings of the Commission.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that Verizon NH’s request for waiver of the Short-Term Debt requirement per Puc 414.03 is GRANTED, consistent with the terms of the Stipulation Agreement, and it is

FURTHER ORDERED, that the Stipulation Agreement is hereby approved; and it is

FURTHER ORDERED, that Verizon NH shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation, such publication to be no later than July 8, 2005 and to be documented by affidavit filed with this office on or before August 1, 2005; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* shall submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than July 20, 2005 for the Commission's consideration; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective August 1, 2005, unless Verizon NH fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this first day of July, 2005.

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Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary