DE 05-107

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Approval of the Issuance of up to $50 Million of Long Term Debt Securities

Order Granting Petition

O R D E R N O. 24,505

August 19, 2005

Appearances: Catherine E. Shively, Esq. for Public Service Company of New Hampshire; Gary M. Epler, Esq. for Unitil Energy Systems, Inc.; and Suzanne Amidon, Esq. for Commission Staff

I. PROCEDURAL BACKGROUND

On June 3, 2005, Public Service Company of New Hampshire (PSNH) filed a petition with the New Hampshire Public Utilities Commission (Commission) seeking authority to (1) issue and sell up to $50 million in aggregate principal amount of secured long term debt through March 31, 2006 (the "Financing Period"), (2) mortgage its property in connection with the issuance of long term debt and the issuance of one or more series of first mortgage bonds, and (3) utilize treasury locks in a notional amount not exceeding the total principal amount of the long term debt to be issued to manage interest rate risk. PSNH's petition was accompanied by the supporting testimony of Patricia C. Cosgel, Assistant Treasurer – Finance of PSNH. The filing further indicated that PSNH will use the proceeds from the debt issuance to refinance its short term debt, to finance anticipated capital expenditures including the current Northern Wood Power Project, and to pay for issuance costs.

On June 15, 2005, the Commission issued an Order of Notice which scheduled a prehearing conference for June 30, 2005. On June 30, 2005, Unitil Energy Systems (Unitil) filed a motion to intervene. Following the prehearing conference, a technical session was held during which the Parties and Staff agreed upon a recommended procedural schedule. In accordance with that schedule, data requests were issued to PSNH on July 7, 2005 with responses provided by PSNH on July 13 and 14, 2005. (Prior to the prehearing conference, Staff had issued a set of discovery requests on June 17, 2005 to which PSNH supplied responses on June 27, 2005.)

Also on July 7, PSNH filed supplemental testimony of Ms. Cosgel along with a late-filed "Assented to Motion for Protective Order." The Motion for Protective Order was filed in reference to PSNH's five-year financial forecast that was provided to Staff as part of the discovery responses filed on June 27. Both Unitil and Staff assented to the Motion.

On July 15, 2005, Staff filed a letter with the Commission indicating that after review and analysis of the petition and PSNH's responses to data requests, in Staff's opinion the docket could be resolved by an Order *Nisi.* Staff further recommended that, pending receipt by the Commission of a detailed recommendation from Staff, that no further technical sessions nor a hearing be held. Staff filed its detailed recommendation with the Commission by letter dated August 15, 2005. On August 19, 2005,Unitil submitted a letter stating it had no objection to the Staff recommendation of approval.

II. SUMMARY OF PSNH'S PETITION

PSNH states that, as of May 31, 2005, it had approximately $56.5 million of outstanding short term debt, while its current Commission-authorized short term debt limit is $100 million. According to PSNH, the outstanding short term debt was incurred to fund working capital requirements and capital expenditures, including the Northern Wood Power Project and distribution and transmission system expenditures. PSNH projects that during 2005 its total capital expenditures will approach $180 million, a portion of which will initially be financed with short term debt and subsequently refinanced with the long term debt proposed in its current petition.

According to PSNH's petition, the proposed debt: would be issued in one series with a maturity ranging from two to thirty years; may be in the form of first mortgage bonds, or debt secured by bond insurance and first mortgage bonds; will carry a fixed interest rate; may be either insured or uninsured; and may be sold to either retail or institutional investors. PSNH further stated that "[t]he amount, form, term, interest rate and conditions of the Long term Debt will be dependent on market conditions." *See* Petition, paragraph #5. In addition, PSNH proposes to maintain a targeted debt to total capitalization ratio of 55 percent during the Financing Period, consistent with rating agency guidelines.

Regarding the interest rate, PSNH's initial filing indicated that the credit spread for the fixed coupon rate would not exceed 150 basis points (1.50 percent) above the rate for United States Treasury bonds with a maturity closest to that of the proposed long term debt. With the filing of Ms. Cosgel's supplemental testimony, PSNH revised its proposal to include a spread of up to 250 basis points above the applicable treasury rate. According to Ms. Cosgel, between the time of the original filing and the filing of her supplemental testimony, market conditions have changed such that the market-based credit spreads have widened, particularly for 30-year debt.

In its filing, PSNH explains the differences between retail debt and institutional debt. Retail debt is primarily distributed to individual investors while institutional debt is issued to financial institutions. Retail debt also requires SEC registration, is listed on the New York Stock Exchange, but unlike institutional debt, it sells at $25 par value compared to $1,000 par value, pays interest quarterly rather than semi-annually, and can be called at par value after 3 to 5 years. According to PSNH, retail investors have different financial interests than institutional investors and, therefore, are less reactive to changes in market conditions. As a consequence, PSNH states that in certain market conditions retail debt coupon rates will tend to be lower than institutional debt coupon rates. While institutional debt would be in the form of first mortgage bonds, retail debt would be secured by first mortgage bonds. Looking at the overall costs, although in certain market conditions retail debt may have a lower coupon rate, the all-in cost may be higher than for institutional debt due to higher underwriting fees and other costs such as insurance. In terms of assessing whether it is advantageous to issue institutional debt or retail debt, PSNH indicated that it draws on the knowledge and experience of its investment banks while also analyzing data from various financial and industry sources to draw its own conclusions regarding credit spreads, interest rates, issuance costs and other economic factors.

PSNH is also contemplating the inclusion of an early redemption provision in the proposed financing. Such a provision could take the form of a “make-whole” provision or a call option. According to PSNH, a “make-whole” provision is the current market standard redemption provision. Such a provision would permit PSNH to redeem the bonds in part or in whole prior to their maturity. While a “make-whole” provision does not involve an additional upfront cost, PSNH would be required to pay a premium to the investors at the time of redemption. The amount of such premium would be dependent, in part, on at what time the bonds are redeemed as well as the applicable treasury rate at the time of redemption. A call option, on the other hand, would allow PSNH, for an additional cost added to the coupon of the bonds, to redeem the bonds at a smaller premium or no premium. For example, PSNH stated that a provision to allow a company to redeem bonds with no premium after a specified period of time would add approximately 30 basis points to the coupon of the bond.

Finally, PSNH seeks approval to utilize treasury locks as a hedge against interest rate risk. According to PSNH, a treasury lock will allow it to lock in the interest rate in anticipation of a debt issuance, thereby reducing its exposure to interest rate volatility. Treasury locks require a small transaction fee which varies depending on the length of time the rate is locked. PSNH indicated that the Commission previously allowed PSNH to use treasury locks or other derivative instruments, *see* 86 NHPUC 756 (2001) and in its most recent financing, s*ee* Order No. 24,328 (May 21, 2004). According to PSNH, in 1994 it entered into a treasury lock that, due to rising interest rates, resulted in a reduction in the yield on the bonds from 5.276 percent to 5.269 percent.

Taking into account the market conditions at the time of its June 3, 2005 filing, PSNH indicated that "the most probable financing structure for the proposed Long-Term Debt is $50 million, 30-year secured Institutional Debt at a projected interest rate of 5.40 percent." Cosgel testimony at 8.

III. STAFF'S RECOMMENDATION

In its August 15, 2005 letter (Staff Recommendation), Staff indicated that it had reviewed the filing, the supplemental testimony and all the discovery materials filed in the case and recommended approval of PSNH's requests through an order *nisi*. In light of PSNH's ongoing capital projects, Staff believes that it is in the public interest for PSNH to use the proceeds of the financing to repay existing short-term debt, finance capital expenditures and pay related issuance costs.

Although the exact financing structure, terms, conditions, amount, documentation and coupon rate will not be determined until the time of issuance and will depend to some extent on prevailing market conditions, in Staff's opinion, the proposed parameters for the financing are reasonable and provide sufficient flexibility to PSNH to close the proposed financing during the Financing Period. Regarding PSNH's July 7, 2005 request to revise its petition to increase the allowable spread above the applicable treasury rate from 150 to 250 basis points, Staff stated that, upon request, PSNH supplied additional information supporting the proposed revision. That additional information included an indicative pricing sheet from one of PSNH's investment banks. In addition, when asked whether PSNH expected the actual credit spread to be closer to 1.50 percent than 2.50 percent, PSNH responded to Staff that:

> The Company does not have any current indications that the credit spread will be greater than 1.5%, but requests the flexibility of a higher maximum spread in order to be able to issue subject to market conditions. Staff Recommendation at 4.

In Staff's opinion, PSNH's request to utilize treasury locks is reasonable, especially in light of the recent interest rate increases that have occurred in the financial markets. Staff stated that the Commission has previously authorized PSNH to utilize derivative instruments. It is also Staff's opinion that PSNH has demonstrated that it can be advantageous to employ such tools.

Staff pointed out that although PSNH indicated that at the time of its initial filing the most probable financing structure was $50 million, 30-year institutional debt – an opinion that PSNH still held in a July 13, 2005 discovery response -- it is important to understand that changing market conditions may warrant a different financing structure and will impact the resulting coupon rate of the bonds. In addition, Staff stated that the 5.40 percent projected interest rate referred to by Ms. Cosgel in her June 3, 2005 testimony did not include the cost of a redemption provision.

Staff stated that many of the term and conditions of the proposed financing are similar to those that were approved by the Commission in PSNH's most recent financing. Specifically, in its Order No. 24,328 (May 21, 2004), the Commission authorized, for a period not exceeding twelve months from the date of the Commission's order, the issuance of up to $50 million of secured or unsecured long-term debt with a maturity ranging from two to thirty years. In addition, the Commission authorized PSNH to mortgage its property in connection with the issuance of the debt and to enter into treasury locks or other derivative instruments in a notional amount not to exceed $50 million.

In summary, Staff recommended that the Commission authorize PSNH to: (1) issue and sell up to $50 million in aggregate principal amount of secured long term debt through March 31, 2006, (2) mortgage its property in connection with the issuance of long term debt and the issuance of one or more series of first mortgage bonds, and (3) utilize treasury locks in a notional amount not exceeding the total principal amount of the long term debt to be issued to manage interest rate risk. Taking into account the fact that the actual terms, conditions, amount, documentation, coupon rate and exact financing structure will not be known until the time of issuance, Staff further recommended that PSNH be required to file copies of the executed loan documents once the transaction is completed along with a summary of the final terms, conditions and other details.

According to Staff, that summary should also explain how the final terms are within the parameters and consistent with the specific details described in its financing petition.

IV. COMMISSION ANALYSIS

At the outset, we note that there were no objections to Unitil's Motion to Intervene and that Unitil has demonstrated that its "rights, duties, privileges [or] immunities" may be affected, as required by RSA 541-A:32,I (b). Accordingly, we grant the motion. In its Motion for Protective Order, PSNH stated that the five-year financial forecast is confidential commercial financial information protected from disclosure under the New Hampshire Right to Know statute, RSA 91-A:5 (IV). PSNH further stated that the disclosure of the information would lead to competitive disadvantage and financial hardship for PSNH. There were no objections to the Motion for Protective Order.

The Commission notes that N.H. Code Admin Rules Puc 204.06 (c) provides for the confidential treatment of utility information when the utility provides evidence that the information is commercially or financially sensitive in nature. Puc 204.06(c)(2) . We find that the information contained in PSNH's five year financial forecast qualifies as commercially or financially sensitive to PSNH, and note that the information is exempt from the requirements of RSA 91-A:5(IV) Therefore, we grant PSNH's Motion for Protective Order.

RSA 369:4 authorizes the Commission "after such hearing or investigation as it may deem proper" to approve a utility's request for long-term financing "if, in its judgment the issue of such securities upon the terms proposed is consistent with the public good." Upon review of the PSNH petition and Staff's recommendation, it is our determination that PSNH's request to issue additional long term debt, and the related requests by PSNH to mortgage its property in connection with the issuance of long term debt, and to utilize treasury locks in a notional amount not exceeding the total principal amount to manage interest rate risk, meet the standard for approval under RSA 369:4. We find, therefore, that there has been sufficient investigation and that PSNH's request for authority to issue long term debt is reasonable in relation to PSNH's foreseeable needs. We find that the related request to mortgage property in connection with the issuance of long term debt and to utilize treasury locks to manage rate risk is also reasonable.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire is granted authority to (1) issue and sell up to $50 million in aggregate principal amount of secured long term debt through March 31, 2006, under the terms and conditions set forth in its filing and supplemental testimony; (2) mortgage its property in connection with the issuance of long term debt and the issuance of one or more series of first mortgage bonds; and (3) utilize treasury locks in a notional amount not exceeding the total principal amount of the long term debt to be issues to manage interest rate risk; and it is

FURTHER ORDERED, that PSNH shall file copies of the executed loan documents once the transaction is complete along with a summary of the final terms, conditions and details, including a description of how the final terms comply with the specific details described in its Petition; and it is

FURTHER ORDERED, that PSNH's Motion for Protective Order is GRANTED pursuant to RSA 91-A, subject to the on-going authority of the Commission to alter, modify or revoke the approval if circumstances so warrant; and it is

FURTHER ORDERED, that Unitil's Motion to Intervene is GRANTED.

By order of the Public Utilities Commission of New Hampshire this nineteenth day of August, 2005.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Michael D. Harrington Commissioner

Attested by:

Michelle A. Caraway
Assistant Executive Director & Secretary