

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 07-070

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

**Petition for Approval of Issuance of Long -Term Debt Securities
and Permanent Increase in Short-Term Debt Limit**

Order on Petition

ORDER NO. 24,781

August 3, 2007

APPEARANCES: Catherine E. Shively, Esq., on behalf of Public Service Company of New Hampshire; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On June 4, 2007, Public Service Company of New Hampshire (PSNH) filed with the Commission a petition pursuant to New Hampshire RSA 369 requesting authority to: 1) issue up to \$200 million in aggregate principal amount of long-term debt securities through December 31, 2008; 2) amend and restate the company's first mortgage indenture; 3) mortgage substantially all of its property under its first mortgage indenture; 4) utilize interest rate locks in connection with such financings; and 5) increase its short-term debt limit to 10 percent of net fixed plant plus a fixed amount of \$35 million. With its petition, the company filed the testimony of Patricia C. Cosgel, Assistant Treasurer of Finance for Northeast Utilities (NU), PSNH's parent company.

On June 15, 2007, the Commission issued an Order of Notice which scheduled a prehearing conference for June 29, 2007 and a hearing for July 24, 2007. Staff filed its first set of data requests on June 22, 2007, and conducted additional discovery following the prehearing conference. The hearing was held on July 24, 2007, as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

According to its filing, PSNH anticipates issuing, through December 31, 2008, up to \$200 million of long-term debt, in one or more series with a maturity ranging from one to 40 years, including a projected \$70 million issuance in the third quarter of 2007 and \$110 million in the first half of 2008. In its petition, the Company stated that it intends to use the proceeds from the issuance of long-term debt to refinance its short-term debt, to finance anticipated capital expenditures, and to pay for issuance costs. PSNH testified that the terms and conditions, amount, documentation, and coupon rate of the long-term debt will be determined at the time of issuance depending on market conditions.

PSNH stated that the long-term debt may be in the form of first mortgage bonds, debt secured by first mortgage bonds, or debt secured by bond insurance and first mortgage bonds; may carry either a fixed or floating interest rate; and may be either insured or uninsured. PSNH noted that long-term debt may be sold to either retail or institutional investors and may also be issued to PSNH's parent, NU, or issued under the company's unsecured revolving credit agreement, under which the company is currently authorized to borrow on a short-term basis only.

PSNH explained that retail debt is primarily distributed to individual investors rather than to financial institutions, is listed on the New York Stock Exchange, sells at \$25 par value compared to \$1,000 par value for institutional debt, pays interest monthly or quarterly rather than semi-annually and can be called at par value after 3 to 5 years. According to the company, retail investors tend to focus on absolute yield compared to other investment options and, as a result, are less reactive to changes in market conditions. As a consequence, PSNH stated that when

interest rates increase, retail debt coupon rates will tend to be lower than institutional debt coupon rates.

PSNH stated that while institutional debt would be issued in the form of first mortgage bonds, retail debt would be secured by first mortgage bonds. In addition, according to the Company, payment of principal and interest on retail debt when due would be insured by one or more financial guaranty insurance policies to be issued by an insurer simultaneously with the delivery of the retail debt. As a result, security holders are generally willing to accept a lower coupon payment in exchange for additional security. However, the issuance costs of retail debt tend to be higher than those of institutional debt. In determining whether to issue institutional debt or retail debt, PSNH stated it would consider the market conditions at the time of issuance. PSNH also stated that it may include a redemption provision on the long-term debt, which would permit PSNH to redeem the long-term debt at any time, in whole or in part, at the option of the company, prior to the long-term debt's stated maturity. While this would not involve any additional up-front expense, PSNH would be required to pay a premium to investors at the time of the redemption. In contrast, the Company noted that a call option would only be available to the company at a cost which is reflected in higher interest rates, and which may not be available in the bond market at the time of issuance. Therefore, PSNH states it will evaluate the benefits and costs with redemption options at the time of pricing.

At the hearing and in prefiled testimony, the company attested that the issuances will likely be 30-year, secured, institutional debt offerings. *See* Testimony of Patricia C. Cosgel (Testimony) at 11, lines 15 to 17. The company stated that the coupon rate will be consistent with market rates for an instrument of similar maturity and risk, but the credit spread above the Treasury Rate will not exceed 200 basis points (2.0 percent). PSNH testified that the requested

maximum credit spread of 2.0 percent is higher than the current market spreads to allow for any anticipated widening of credit spreads at the time of issuance. *See* Testimony at 12, lines 11 to 13. In order to mitigate interest rate risk, the Company stated that it is also seeking the Commission's approval of its proposal to use interest rate locks in a notional amount not exceeding the total principal amount of the long-term debt to be issued during the finance period.

PSNH stated in its petition that, if the long-term debt issuance is in the form of mortgage bonds, such bonds will be first mortgage bonds issued under the company's first mortgage indenture as restated and amended, and filed as Attachment 7 with the petition. According to the Company, the current indenture is excessively complex and restrictive, and may constrain PSNH's ability to complete key financing activities such as issuing debt, releasing property, and recovering cash proceeds held by the indenture trustee. In addition, PSNH stated that several provisions in the current indenture, such as renewal and replacement provisions and interest coverage ratios, are not found in modern indentures and are not required in the capital market environment. PSNH testified that these current provisions are not unique to the company and did not reflect any financial concern about the company, but are common to indentures of the same vintage. According to PSNH, amending the indenture as proposed provides PSNH the same financial and strategic flexibility that comparable companies have with modern indentures. *See* Testimony at 15, line 17, to 16, line 5.

PSNH filed a summary of the material changes in the mortgage indenture. *See* Ex. 1, Attachment 7A. PSNH plans to replace the credit test in the current indenture which must be met by the company to allow it to enter any transaction to issue new bonds, or release property and cash. According to the Company, the current indenture credit test requires PSNH's net earnings to be twice the annual interest expense before it can engage in any such transaction.

The amended indenture would replace this test with a requirement that, after giving effect to a proposed transaction, the aggregate amount of outstanding PSNH bonds and prior secured debt shall not exceed 75 percent of the sum of: 1) the lesser of the cost or fair value of then existing net utility plant of PSNH, plus 2) all cash on deposit with the trustee. If this test is met, PSNH stated that it can take any desired issuance and release action under the indenture, while still ensuring that any outstanding PSNH mortgage bonds will have adequate security.

Based on discussions with underwriters, and the experience of its affiliate, Connecticut Light & Power (CL&P), which similarly has already modified its indenture, PSNH believes that investors would consider the amended indenture reasonable. In addition to obtaining the approval of the Commission to the proposed changes to the indenture, PSNH stated that it will have to obtain the consent of the holders of not less than a majority of the aggregate principal amount of bonds outstanding at the time to effect all such changes. Although new bondholders will be deemed to have consented to the amendments, the Company said that it would not be subject to the amended provisions until the required majority consent is received. PSNH indicated that it does not anticipate that the amendment would be effective before 2013. At the hearing, PSNH stated that the new indenture may be amended later to restore the interest coverage ratio, if necessary, without the majority approval from bondholders.

As previously noted, the Company requested approval to use rate locks to hedge the interest rate risk associated with long-term debt issuances. PSNH explained that the use of rate locks will reduce exposure to rising interest rates by locking in a portion of the interest associated with the proposed issuance of long-term debt. The Company said that rate locks can be used in any market environment, since locking in an interest rate eliminates a significant portion of the uncertainty of the coupon rate on the anticipated debt issuance.

According to PSNH, several instruments could be used to lock in the interest rate of a planned debt issuance and noted that the Commission previously approved PSNH's use of treasury locks in connection with a \$50 million debt issuance in Docket No. DE 05-107, *Public Service Company of New Hampshire*, Order No. 24,505 (August 19, 2005). If the Commission approves PSNH's use of an interest rate lock in this docket, PSNH stated that it may enter into a treasury lock or forward-starting Swap, which functions substantially similar to a treasury lock, based on its evaluation of prevailing market conditions upon issuance. The result, according to the company, will be less volatility in interest rates which will benefit customers.

With respect to its request for a higher short-term debt limit, PSNH pointed out that the Commission approved a temporary increase to PSNH's short-term debt limit, to 10 percent of the value of its net fixed plant¹ plus an additional 3 percent of its net fixed plant (approximately \$142 million) in Docket No. DE 07-025, *Public Service Company of New Hampshire Petition for Temporary Increase in Short Term Debt* Order No. 24,737, (March 30, 2007). PSNH noted that the Commission granted such an increase in short-term debt only until December 31, 2007, or until PSNH completes its refinancing of short-term debt with long-term debt, whichever occurs first.

According to the Company, after the temporary authorization has expired, PSNH will continue to invest in new capital additions in its distribution, transmission and generation segments, and will need funds for emergency storm restoration, for which it would have to rely heavily on short-term borrowings. To meet this need, PSNH requests that it be allowed to incur short-term debt equal to 10 percent of net fixed plant plus an additional fixed amount of \$35

¹ Pursuant to N.H. Code Admin. Rules Puc 307.05, no electric utility may have short-term debt in excess 10 percent of that utility's net fixed plant without prior commission approval pursuant to Puc 201.05, titled waiver of rules.

million starting the earlier of January 1, 2008, or when the temporary authority approved by the Commission in Order No. 24,737 expires.

According to the petition, PSNH had approximately \$28 million of short-term debt balances, as of March 31, 2007, which was used to fund working capital requirements and capital expenditures, and that, based on its current net fixed plant, the requested short-term debt limit (10 percent of net fixed plant plus \$35 million) will equal approximately \$144 million. PSNH testified that, as the value of its net fixed plant increases, the 10 percent plus the fixed amount of \$35 million will represent an allowance of approximately 12.5 percent of net fixed plant in short-term debt by December 2008.

According to PSNH, the higher short-term debt limit would enable it to reduce the frequency of petitions asking for authority to issue long-term debt, thus saving transaction and legal costs. In addition, certain intra-month peaks in PSNH's short-term borrowing may cause PSNH's short-term borrowings to exceed the 10 percent of net fixed plant set in Puc 307.05. PSNH stated that the requested permanent increase in its short-term debt limit will help the Company manage short-term liquidity needs on peak borrowing days and fund total company construction expenditures, which will be financed initially with short-term debt and subsequently would be refinanced with the long-term debt proposed in the petition.

B. Commission Staff

At the hearing, Staff questioned PSNH as to how the issuance of an additional \$200 million in long term debt would affect the capital structure approved by the Commission in Docket No. DE 06-028, *Public Service Company of New Hampshire Delivery Service Rate Case*, Order No. 24,750 (May 13, 2007). PSNH replied that it expects a \$49 million equity infusion this year and would ask NU for additional equity infusions, if necessary, to maintain the target

capital structure approved in the last rate case. Staff stated that it supported PSNH's request for an additional \$200 million in long-term financing provided that PSNH maintain the target debt-to-equity ratio as it proceeds with the planned financing. Staff further stated its support for PSNH's use of interest rate locks in connection with its long-term financing and noted that such interest rate locks are in the interest of customers because interest rates are near historic lows.

With respect to the proposed amendment to the indenture, Staff inquired whether the proposed indenture exposes bondholders to additional risk that may result in a downgrade of the company's overall credit rating, which currently is BBB. PSNH replied that it did not anticipate such a downgrade, that there has been no movement in the credit rating of PSNH's senior secured debt in response to PSNH's petition. Staff expressed its support for PSNH's proposed indenture because it provides security to bondholders that assets are available to bondholders to redeem the debt. *See* Hearing Transcript of July 24, 2007 at 58, line 23 to 59, line 2.

Staff recommended that the Commission require PSNH to provide quarterly reports showing its total debt-to-net plant ratio, interest coverage ratio and supporting data as shown in response to Staff Data Requests NSTF-01-005 and 01-013 (Exs. 9 and 10). At the hearing, PSNH expressed its agreement with this condition.

In response to questioning by Staff, PSNH testified that the long-term debt issuances will relieve the upward pressure on short-term debt balances and agreed that it was appropriate for the Commission to consider the merits of the company's request to increase short-term debt from time to time. Therefore, Staff recommended that the Commission approve PSNH's request to increase its short-term debt limit by a fixed amount of \$35 million over 10 percent of net fixed plant only through December 31, 2008, or until the long term financing is complete, whichever

occurs first. At the hearing, PSNH said it was agreeable to the temporary increase to short-term debt recommended by Staff.

III. COMMISSION ANALYSIS

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.” After review of the petition and hearing the Company and Staff at the July 24th hearing, it is our determination that PSNH’s request to: issue additional long term debt, issue first mortgage bonds or bonds secured by the first mortgage, amend the indenture, and utilize a hedge for interest rates meets the standard for approval under RSA 369:4. We approve the petition subject to the conditions presented at the hearing by Staff and agreed to by PSNH in its closing statement at the hearing. The conditions are: 1) that PSNH’s short term debt limit shall be temporarily increased to 10 percent of net fixed plant plus an additional fixed amount of \$35 million through December 31, 2008, or until the long term financing is complete, whichever occurs first, and 2) that PSNH make quarterly reports to the Commission consistent with the information provided in Exhibits 9 and 10 illustrating its total debt-to-net plant ratio, interest coverage ratio and supporting data as recommended by Staff.

With these conditions, we find therefore that there has been sufficient investigation and that PSNH’s request for authority to issue long term debt is reasonable and related 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 interest rate locks to manage rate risk is appropriate and reasonable. Finally, we understand that PSNH expects that the terms and conditions, amount, documentation and coupon rate of the long-term debt will be determined at the time of issuance

depending on market conditions and we expect PSNH to follow the criteria set forth in its petition and testimony in making the issuance.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire is granted authority to: 1) issue up to \$200 million aggregate principal amount of long-term debt securities through December 31, 2008 for the purposes of repayment of short-term debt and funding working capital needs; 2) amend and restate the company's first mortgage indenture as described in testimony subject to the reporting requirement noted above; 3) mortgage substantially all of its property under its first mortgage indenture; 4) utilize interest rate locks in connection with such financings; and 5) temporarily increase its short-term debt limit to 10 percent of net fixed plant plus a fixed amount of \$35 million through December 31, 2008, or until the long term financing is complete, whichever occurs first; 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 provide quarterly reports showing its total debt-to-net plant ratio, interest coverage ratio and supporting data.

By order of the Public Utilities Commission of New Hampshire this third day of August,
2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary