

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DE 07-070**

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

**Motion to Amend Finance Order**

**Order Following Hearing**

**ORDER NO. 24,821**

**January 30, 2008**

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

**I. PROCEDURAL BACKGROUND**

On December 13, 2007, Public Service Company of New Hampshire (PSNH) filed a motion to amend Order No. 24,781 (August 3, 2007) which approved the utility's request for authority to issue long-term debt securities. In that order, PSNH was granted authority to 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. PSNH was allowed flexibility regarding the debt's term to maturity, although the coupon rate of such debt was required to be consistent with market rates for instruments of similar maturity and risk, with the credit spread above the comparable Treasury rate not to exceed 200 basis points (2.00 percent).

In the pending motion, PSNH seeks to increase the authorized credit spread above the comparable Treasury rate to a level not to exceed 300 basis points (3.00 percent). With its motion, PSNH filed the supporting testimony of Patricia C. Cosgel, Assistant Treasurer-Finance of PSNH parent company Northeast Utilities (NU). A supplemental order of notice was issued

on December 28, 2007, scheduling a hearing for January 22, 2008. The hearing took place as scheduled.

## II. POSITIONS OF THE PARTIES

### A. Public Service Company of New Hampshire

PSNH witnesses testified that, when the Commission approved PSNH's petition to issue long-term debt in Order No. 24,781, the Commission authorized PSNH to negotiate a credit spread not to exceed 200 basis points above the comparable U.S. Treasury rate. According to PSNH, at the time of the Commission's approval, the authorized credit spread of 200 basis points above Treasury rates was higher than the then-current market spread, and was intended to allow for any potential widening of credit spreads at the time of issuance.

According to PSNH, during the third and fourth quarters of 2007, the fixed income markets experienced extreme volatility, driven primarily by the impact of the sub-prime mortgage crisis on the general economy. This volatility led to significant credit tightening along with higher than anticipated credit spreads required by investors to purchase long-term debt in all sectors, including utilities. Further, PSNH stated that it experienced the impact of the widening credit spreads when it issued its \$70 million Series N Bonds in September 2007. PSNH illustrated the quick movement of spreads from early August to the middle of September 2007, when the Series N Bonds were priced as follows:

<u>Date</u>	<u>10 Year Maturity Spreads</u>	<u>30 Year Maturity Spreads</u>
August 9, 2007	1.20 %	1.45 % - 1.50 %
August 27, 2007	1.35 %	1.60 % - 1.65 %
Issuance on Sept. 26, 2007	1.70 %	2.00 % - 2.10 %

PSNH said that, if this upward trend continues and the credit spread exceeds PSNH's currently authorized 2.00 percent maximum, it may not be able to access the market for its

planned March 2008 issuance of long-term debt. PSNH testified that increasing the allowed credit spread would give it the flexibility it needs to access the market. In response to Staff questions, PSNH agreed that the requested 300 basis points is only an upper limit, and that the company would pursue the best deal available at the time it goes to the debt market.

According to PSNH, while credit spreads have widened, Treasury yields have declined, with coupon rates still at relatively low levels. PSNH testified that, in September 2007, 5-year, 10-year and 30-year Treasury yields were 4.92 percent, 4.96 percent and 5.08 percent respectively, compared to the lower Treasury yields projected (based on November 2007 information from Global Insight) for the first quarter of 2008 as follows:

	<b>5 year</b>	<b>10 year</b>	<b>30 year</b>
Treasury Yield	4.07 %	4.41 %	4.67 %
+ Credit Spread	1.75 %	1.80 %	2.00 %
= Coupon Rate	5.82 %	6.21 %	6.67 %

In response to a discovery request, PSNH provided the following updated first quarter 2008 rate forecasts as of January 2, 2008 (Exhibit 12 at 8):

	<b>5 year</b>	<b>10 year</b>	<b>30 year</b>
Treasury Yield	3.48 %	4.08 %	4.47 %
+ Credit Spread	1.60 %	1.80 %	2.00 %
= Coupon Rate	5.08 %	5.88 %	6.47 %

PSNH explained that the above demonstrated decline in expected Treasury yields had somewhat mitigated the impact of the recent rise in credit spreads. Therefore, PSNH noted, an increase in the credit spread may, but will not necessarily, result in an increase in PSNH's overall coupon rates.

PSNH testified it currently anticipates issuing approximately \$110 million in new long-term debt on or about March 31, 2008, an amount lower than the \$130 million of financing authorization remaining from Order No. 24,781. However, PSNH also indicated that prevailing market or business conditions could delay the issuance, which could result in the need to issue the entire \$130 million of remaining authorization. PSNH requested that the 300 basis point credit spread be authorized through December 2008 in the event that PSNH has to delay the March issuance. In addition, PSNH indicated that it was considering drawing on its revolving credit facility in the event that the market remained unsettled. PSNH testified that the Federal Reserve Board's 75 basis point reduction to the federal funds rate on January 22, 2008 could introduce additional volatility to the credit markets. PSNH concluded by requesting that the Commission issue an order approving the company's request by January 31, 2008, to enable PSNH to access the markets as early as March 1, 2008.

#### **B. Commission Staff**

Staff stated that it had conducted discovery and recommended that, based on its review of PSNH's petition and the responses to Staff's discovery requests (Exhibit 12), the Commission approve the motion.

### **III. COMMISSION ANALYSIS**

Although PSNH's motion to amend the financing order comes only four months after we issued the order in August 2007, based on the record before us we find that, given current market conditions, PSNH's request for an increase in the credit spread is reasonable and will provide PSNH with appropriate decision making flexibility at the time it enters the capital markets. Therefore, pursuant to RSA 369:1 and consistent with the public good, we grant PSNH's petition to amend Order No. 24,781 to increase the permitted credit spread over the applicable Treasury

rates from no more than 200 basis points (2.00 percent) to no more than 300 basis points (3.00%). In so doing, we emphasize that 300 basis points is the upper limit. We expect that PSNH will pursue the most favorable arrangement when they issue securities. Finally, we grant PSNH's request that this amendment be effective through December 31, 2008, understanding that PSNH may want to postpone the planned March 2008 issuance in the event of unfavorable conditions in the credit markets.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the Motion of Public Service Company of New Hampshire to amend the finance order issued in Docket No. DE 07-070, Public Service Company of New Hampshire, Petition for Approval of Issuance of Long Term Debt Securities, Order No. 24,781 (August 3, 2007) to permit a credit spread over comparable Treasury rates not to exceed 300 basis points is hereby APPROVED; and it is

**FURTHER ORDERED**, that, with the exception of this amendment, Order No. 24,781 remains in full force and effect.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of  
January, 2008.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary