

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 13-156

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Approval of Financing Transactions

Order *Nisi* Approving Petition

ORDER NO. 25,577

September 26, 2013

I. PROCEDURAL HISTORY

On May 24, 2013, Public Service Company of New Hampshire (PSNH or Company) filed a petition for authority to conduct certain financing transactions pursuant to RSA Chapter 369. Specifically, PSNH requested authority to (1) issue up to \$315 million in aggregate principal amount of long-term debt securities (Long-Term Debt) through December 31, 2014 (Financing Period); 2) mortgage its property in connection with the Long-Term Debt issuance; (3) issue new tax-exempt or taxable bonds for the purpose of refinancing \$89,250,000 in N.H. Business Finance Authority 4.75% pollution control revenue bonds (PCRB) 2001 tax-exempt Series B; and (4) rescind the quarterly compliance filing requirements mandated by Order No. 24,781 (August 3, 2007). The Commission issued an order of notice on July 3, 2013 scheduling a prehearing conference for August 6, 2013.

In prefiled testimony, PSNH said that, during the financing period, it proposes to issue and sell up to \$315 million in aggregate principal amount of Long Term Debt in the form of, or secured by, first mortgage bonds, or in the form of unsecured notes, in one or more series, with a maturity ranging from one to 30 years. According to PSNH, the exact maturity, financing

structure, terms and conditions, amount, redemption provisions and coupon rate will be determined at the time of issuance depending on prevailing market conditions. PSNH explained that its Long-Term Debt requirements primarily consist of capital expenditures and repayments of short-term and long-term debt as follows. First, PSNH said its 2013 capital expenditures are forecasted to be approximately \$210 million, of which about 50% will be financed with Long-Term Debt. Second, its \$50 million of 5.25% Series L first mortgage bonds will mature on July 15, 2014. Third, the Company's short-term debt balance of March 31, 2013 was \$53.4 million. Finally, PSNH redeemed \$108,985,000 of Series C PCRBs on May 1, 2013 with short-term debt on a temporary basis, awaiting Long-Term Debt approval from the Commission requested in the instant petition.

PSNH said that, to achieve favorable financing terms, its seeking authority to issue the Long-Term Debt within certain flexible parameters so that the Long-Term Debt may have fixed or floating interest rates, be secured or unsecured, and distributed in either the public or private markets. The parameters that are fixed for the issuance, however, are as follows: (1) Long-Term Debt maturity will range from one to 30 years; (2) the aggregate principal amount of the Long-Term Debt issued during the Financing Period will not exceed \$315 million; and (3) the coupon rate for the Long-Term Debt will be consistent with market rates for an instrument of similar maturity and risk at the time of issuance, with conditions that the credit spread above (a) a fixed rate benchmark not to exceed 300 basis points (3.00%), or (b) a floating rate benchmark, such as a London Inter-bank Offer Rate (LIBOR) not to exceed 300 basis points (3.00%).

The Company testified that the proceeds of the issuance of \$315 million in Long-Term Debt will be used to (1) refinance outstanding short-term debt, including short-term debt incurred to redeem the \$108,985,000 Series C PCRBs on May 1, 2013; (2) financing the Company's

transmission, distribution and generation businesses' capital expenditures; (3) pay at maturity PSNH's \$50 million of 5.25% Series L first mortgage bonds due July 15, 2014; (4) fund general working capital purposes; and (e) pay issuance costs, which PSNH estimated to be approximately \$3.3 million for a single \$315 million issuance based on a 30-year secured debt structure.

PSNH said that it was requesting the Commission's approval to issue Long-Term Debt in multiple series throughout the Financing Period because (1) given the volatility of the financial markets over the last several years, having this authorization will enable the Company to quickly capitalize on favorable market conditions by significantly reducing the lead time in issuing debt; and (2) any future request by PSNH for additional long-term debt during the Financing Period would, in all likelihood, closely resemble the request for issuance in the instant petition. PSNH stated that if the Commission approved PSNH's proposal for the issuance of Long-Term Debt, it would save time and administrative effort associated with a second proceeding.

PSNH testified that the Series C PCRBs were issued on December 19, 2001 in an aggregate principal amount of \$108,985,000 with a maturity date of May 1, 2021 at a fixed coupon rate of 5.45%. The Series C PCRBs included a call option that allowed PSNH to redeem the bonds at par on May 1, 2013. PSNH elected the call because refinancing the Series C PCRBs at then current rates would result in an after tax net present value (NPV) savings of approximately \$14 million as compared to repaying the bonds at maturity. In connection with the redemption of the Series C PCRBs, PSNH is also requesting authority to amortize the previously incurred issuance fees over the term of the new Long-Term Debt consistent with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

PSNH testified that the Company considered current market spreads for similarly rated securities as well as historical spreads in determining the requested credit spread authority up to 300 basis points (3.00%). Given that the Company is proposing a financing plan through December 31, 2014, PSNH said the plan must include sufficient flexibility to address changing market conditions and volatile markets. According to PSNH, a maximum credit spread of 300 basis points will provide PSNH with flexibility in the event of unanticipated widening of credit spreads between now and the time of the issuance due to any uncertainty or volatility in the capital markets. PSNH reiterated that the Long-Term debt would be issued at prevailing market rates and credit spread, which will be determined by market demand at the time of the issuance. According to the Company's testimony, PSNH has not accessed the capital markets since 2011. PSNH said that its affiliate, Connecticut Light & Power, which has similar ratings as PSNH, issued \$400 million of 10-year taxable secured debt; in that instance, the required investor yield at the time of pricing the bonds was 2.574%, which reflected a 10-year Treasury yield of 1.874% plus a credit spread basis of 70 basis points (0.700%).

PSNH stated that in addition to the request to issue Long-Term debt up to the amount of \$315 million, the Company is also seeking authority to refinance its \$89,250,000 Series B PCRBs with new bonds. According to PSNH, the Series B PCRBs were issued on December 19, 2001, in an auction rate mode with a maturity date of May 1, 2021 and subsequently converted to a fixed rate mode on June 21, 2006, with a coupon rate of 4.75%. The Series B PCRBs contain a call option that allows PSNH to redeem the bonds at a price equal to 102% of the principal starting on June 21, 2013. PSNH stated that the rate declines at 1.00% annually each June 21 to a final price equal to 100% of principal on June 21, 2015. The Company explained that it is seeking approval to refinance the Series B PCRBs at this time because the after-tax NPV savings

from refinancing at the current taxable interest rate of 2.16 % is approximately \$8.3 million, taking into account the lower interest expense, the call premium, non-payment of bond insurance fees and additional issuance costs. PSNH requested flexibility to refinance the Series B PCRBs with the issuance of the New Bonds as either tax-exempt or taxable debt depending on which market provides the most favorable pricing at the time of the refinancing. According to PSNH, it will choose the market that yields the lowest effective cost. PSNH said that it is using an 8-year maturity to evaluate the refinancing savings based on the remaining term of the existing outstanding debt, but that the exact maturity that PSNH issues will depend on the market conditions at the time of issuance.

Finally, PSNH stated that, pursuant to Order No. 24,781 (August 3, 2007) in Docket DE 07-070 (the Company's 2007 financing proceeding), the Company files quarterly reports showing its total debt to net plant ratio, interest coverage ratio and supporting data. In this filing, PSNH requested that the Commission rescind the quarterly reporting requirement. According to PSNH, the reporting requirements related to a First Mortgage Indenture that was originally issued in 1978 and included a particular interest coverage ratio. PSNH testified that the First Mortgage Indenture was replaced by an Amended and Restated First Mortgage Indenture effective June 1, 2011 in which the interest coverage ratio from the original indenture is no longer applicable.

Staff filed a memorandum on September 9, 2013 recommending that the Commission approve PSNH's petition. Staff said that it had reviewed the filing, issued data requests and met with the Company. Based on its review, Staff said that it agreed with PSNH that flexibility in issuing its long-term debt will significantly reduce the lead time in issuing that debt, thereby increasing the success of favorable terms for financing structure, terms and conditions, amount,

documentation and coupon rate. Staff opined that the flexible parameters outlined by the Company are reasonable for the following reasons: (1) the Company's debt ratio will not be adversely affected by the new long term debt, remaining at its current level of about 49%, because about \$160 million of the new debt is for refinancing current debt and because Northeast Utilities, PSNH's parent company, expects to continue to make capital contributions, as necessary; (2) the coupon rate will be consistent with market rates for an instrument of similar maturity and risk, with the condition that the credit spread not exceed 300 basis points, which is a reasonable spread given the requested issuance period through December 31, 2014, and given the recent credit spread for PSNH and its affiliate in the range of 70 to 250 basis points in their last five financings over a 4-year period; (3) it is estimated that the associated rate impact of the financings on its current Energy Service rate would be a decrease of \$0.0003 per kilowatt-hour; and (4) the proceeds from the debt will be appropriately used to finance capital expenditures, to reduce short term debt, to refinance current debt, and to increase working capital.

Finally, Staff agreed with PSNH that flexibility in refinancing the Series B PCRBs with the issuance of the New Bonds as either tax-exempt or taxable debt depending on which market provides the most favorable pricing at the time of refinancing will significantly increase the success of the refinancing; nonetheless, Staff recommended that the refinancing should not be executed unless NPV savings are achievable based on reasonable interest rate conditions.

Regarding PSNH's request to be accorded flexibility and timeliness in issuing \$315 million in long-term debt, mortgaging its property and in refinancing its \$89,250,000 Series B PCRBs through May 1, 2021, such that it can quickly capitalize on favorable market conditions, Staff recommended that the Commission approve the request and all actions necessary to

complete any such issuances, with the limitation on the Series B that the refinancing should not be executed unless NPV savings are achievable based on reasonable interest rate conditions.

Staff also recommended that the Commission end the reporting requirements in Order No. 24,781, because the interest coverage ratio related to the original indenture is no longer applicable. Finally, the Staff recommended that the Commission issue an Order *Nisi* granting the requests in this docket.

II. COMMISSION ANALYSIS

In reviewing the proposed financing, we must determine whether the issuance is consistent with the public good, pursuant to RSA 369:1 and 4. In determining the public good, the relevant statutes require us to consider the amount of the issue authorized, the purpose or purposes for which the proceeds are to be used, and the reasonableness of the terms and conditions of the financing. In addition, according to the New Hampshire Supreme Court, the Commission must consider whether the object of the financing is reasonably required for use in discharging a utility company's obligation to provide safe and reliable service, whether the utility company's plans to accomplish that object are economically justified when measured against any adequate alternatives, and whether the capitalization resulting from the utility company's plans would be supportable. *Appeal of Easton*, 125 N.H. 205, 211-213 (1984).

The scope of this docket includes the terms and amount of the financing, the effect on PSNH's rates, capital structure and debt/equity ratio, and whether the proposed use of the proceeds is in the public good. This filing does not propose funding for a specific project but for the Company's capital investments generally. PSNH included with the filing its 2013 capital budget listing its planned capital projects for the year in relation to its distribution, transmission and generation operations. PSNH said that it will continue to receive equity contributions from

its parent, Northeast Utilities, in amounts that, as it issues additional debt, will maintain its capital structure in component percentages similar to those included in the settlement agreement in PSNH's most recent distribution rate case, Docket DE 09-035.

The intended uses of the proceeds of the financing petition are similar to the use of the funds for financing approved in Order No. 25,021 (October 5, 2009) in Docket No. DE 09-033, PSNH's 2009 long-term financing petition. As required by *Easton*, we have reviewed the proposed uses of the financing, including the refinancing of the Series B PCRBs, and find the uses to be in the nature of ordinary expenditures reasonably necessary for safe and reliable utility operations. Based on our review of the filing and Staff's recommendation, we approve the financing.

Finally, we have considered PSNH's request that the quarterly compliance filing requirements mandated by Order No. 24,781 be terminated and agree that the quarterly compliance filings are no longer applicable. On that basis, we grant the relief requested by the Company and terminate the requirement for quarterly compliance reports. Pursuant to N.H. Code Admin. Rules Puc 300, PSNH is required to file periodic financial reports with the Commission and those reports will continue to be subject to our review.

We approve the petition on a *nisi* basis in order to provide any interested party the opportunity to submit comments or request a hearing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below and the parameters described above, the request of Public Service Company of New Hampshire for authority to issue Long-Term Debt in the amount of \$315 million through December 31, 2014, to mortgage its property in connection with the Long-Term Debt issuance, to issue new tax-exempt or taxable bonds for

the purpose of refinancing its Series B PCRBs provided that it can demonstrate that NPV savings are achievable based on reasonable interest rate conditions, to use a credit spread of up to 300 basis points (3.00%), and to terminate the quarterly compliance filing mandated by Order No. 24,781, is hereby GRANTED; and it is

FURTHER ORDERED, that PSNH shall cause of copy of a summary of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than October 2, 2013 and to be documented by affidavit filed with this office on or before October 8, 2013; and it is

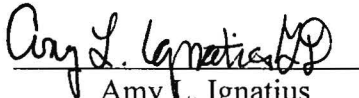
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than October 4, 2013 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than October 7, 2013; and it is


FURTHER ORDERED, that this Order *Nisi* shall be effective October 8, 2013 unless PSNH fails to satisfy the publication obligation set forth above or the Commission orders otherwise; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall make a detailed report to the Commission regarding the terms of the issuance of Long-Term Debt granted by this Order *Nisi* within 30 days of the issuance.


By order of the Public Utilities Commission of New Hampshire this twenty-sixth day of September, 2013.



Amy L. Ignatius
Chairman




Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director