

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 14-101

NORTHERN UTILITIES, INC.

Petition for Approval to Issue Securities

Order *Nisi* Approving Financing Petition

ORDER NO. 25,670

May 23, 2014

In this order, the Commission approves Northern's request to issue up to \$50 million in long-term debt. Northern will use the money to pay off short-term debt incurred to complete capital projects. This order is being issued on a *nisi* basis to ensure that all interested parties receive notice of the Commission's order and have the opportunity to request a hearing prior to its effective date.

I. BACKGROUND

Northern Utilities, Inc. (Northern), is a public utility that supplies natural gas to approximately 60,000 customers in the State of Maine and in the seacoast region of New Hampshire. Northern filed a petition on April 14, 2014, seeking Commission approval to borrow up to \$50 million from institutional investors through promissory notes with terms of 10 and 30-years and at interest rates not to exceed 6.5%. Northern supplemented its petition by a letter dated May 22, 2014. The letter updated the projected interest rates and indicated Northern may include 15-year notes in its offerings, also subject to the 6.5% interest rate cap. No party sought to intervene or otherwise participate in this docket. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the

Commission, is posted to the Commission's website at

<http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-101.html>.

II. POSITION OF THE PARTIES

A. Northern

Northern supported its petition with the pre-filed testimony of David L. Chong, the Director of Finance and Assistant Treasurer for Unitil Service Corp., a subsidiary of Unitil Corporation that provides support services to Northern. April 14, 2014, Testimony of David L. Chong at Bates page 2. Northern seeks approval to issue and sell up to \$50 million in senior notes evidencing unsecured long-term debt at interest rates no higher than 6.5 percent. Chong testimony at Bates page 3. Northern intends to sell the notes directly to institutional investors. *Id.* at Bates pages 4-5. Northern's goal is to borrow \$40 million through a mix of 10-year, 15-year, and 30-year note issuances. *Id.* at Bates pages 4-5. Northern seeks authority to borrow more than \$40 million in order to provide flexibility.

In support of Northern's request, Mr. Chong provided a hypothetical in which one investor makes a \$20 million bid and another offers to buy \$25 million in notes, all on favorable terms. Northern desires flexibility to accept both hypothetical bids even though they exceed the \$40 million target. Mr. Chong testified that Northern risks losing a favorable bid in this hypothetical if it must renegotiate terms to stay under a hard cap. *Id.* at Bates pages 4-5. Mr. Chong also testified that Northern anticipates receiving interest rates lower than the requested limit of 6.5%, but seeks approval of that maximum rate to allow for changes in the market. *Id.* at Bates pages 6-7.

Mr. Chong stated that Northern will use the proceeds of the requested long-term loans to pay off its outstanding short-term debt. *Id.* at Bates pages 8. Northern incurred that short-term debt to complete capital projects to improve its property, plant, and equipment, including Northern's cast iron and bare steel replacement programs in New Hampshire and Maine. *Id.* Mr. Chong estimated that approximately \$505,000 in financing-related costs will be incurred. *Id.* at Bates page 11.

Mr. Chong described the benefits of the proposed financing. By paying off short-term debt that was incurred to pay for long-term projects, the proposed financing would better match Northern's debt with the long-term nature of the corresponding assets. *Id.* at Bates page 4-5, 9. Paying off short-term debt would improve Northern's balance sheet and strengthen Northern's capitalization. *Id.* The proposed financing would also lower Northern's weighted cost of long-term debt, which is now 6.92%. *Id.* at Bates page 10. Northern expects a favorable reception by the private placement market for its proposed debt issuance. *Id.* at Bates page 12.

B. Staff

Commission Staff (Staff) filed a letter recommending that the Commission approve Northern's request. *See* Letter of Stephen P. Frink, Assistant Director, Gas and Water Division, to Executive Director Debra A. Howland, dated May 20, 2014. After a thorough review of Northern's filing and responses to data requests, Staff calculated that the proposed financing would result in a modest change in Northern's debt-to-equity ratio from 55:45 to 56:44. *Id.* Staff concluded that the financing would cause a \$70,255 decrease in the projected revenue requirement for the May 2015 step adjustment approved in Northern's most recent rate case, resulting in no discernible impact on rates. *Id.*; *see also Northern Utilities, Inc.*, Order

No. 25,653 at 10 (Apr. 21, 2014). Staff considered the amount and cost of Northern's proposed financing to be reasonable and the proposed terms to be consistent with entities that have similar credit ratings. Staff characterized Northern's request as "routine." *Id.* Nothing in Northern's supplemental submission caused Staff to change its recommendation.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984).

The rigor of an *Easton* inquiry varies depending upon the circumstances of the request. We engage in a more limited review for routine financing requests. *Public Service Co. of N.H.*, Order No. 25,050 at 13-14 (Dec. 8, 2009). A routine request is one "that will have no discernable impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations." *Id.* at 13. A routine requests calls for a more limited examination of whether the "use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds." *Id.* at 16.

We find Northern's request to be routine. Staff confirmed through its investigation, and we hereby find, that the financing will have no discernable impact on rates and will not adversely affect capitalization. Northern represented that the proceeds will be used to pay off short-term

debt it incurred to pay for normal utility operations, mostly capital improvements to its distribution system. As a routine financing request, we limit our review to whether the “use of the financing proceeds [is] in the public good.” RSA 369:4. We need not examine other possible uses of the money. *Public Service Co. of N.H.*, Order No. 25,050 at 16. Northern stated it will use the financing proceeds to pay off short-term debt. Replacing this short-term debt with the proposed long-term financing will confer benefits to Northern and its customers. Northern’s balance sheet and capitalization will improve, and customers will see essentially no change in rates. We thus find Northern’s intended use of the financing proceeds to be in the public good. In the event Northern obtains more than its target of \$40 million, we expect Northern to use any surplus to help fund its projected 2014 capital spending, or for other appropriate corporate purposes.

Finally, we do not find it necessary to conduct a hearing, as permitted by RSA 369:4. We base our decision on a careful review of Northern’s filing and Staff’s investigation. Nonetheless, we will issue this order on a *nisi* basis to ensure that all interested parties receive notice of our determination and have the opportunity to request a hearing.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Northern’s petition to issue up to \$50 million in long-term debt at an interest rate of not more than 6.5%, is hereby APPROVED; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of the 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

June 3, 2014 and to be documented by affidavit filed with this office on or before June 23, 2014; and it is

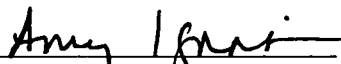
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than June 10, 2014 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than June 17, 2014; and it is

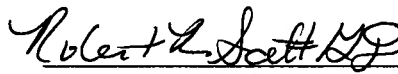
FURTHER ORDERED, that this Order *Nisi* shall be effective June 23, 2014, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before July 7, 2014, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).


By order of the Public Utilities Commission of New Hampshire this twenty-third day of May, 2014.



Amy L. Ignatius
Chairman

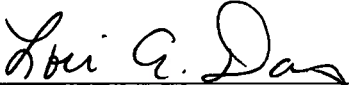


Robert R. Scott
Commissioner



Martin P. Honigberg
Commissioner

Attested by:



Lori A. Davis
Assistant Secretary