STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 17-133

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

Petition for Authority to Borrow Money/Issue Evidence of Indebtedness

Order Approving Petition

O R D E R N O. 26,085

December 15, 2017

In this order, the Commission grants Liberty the authority to borrow up to $3,434,343.43 to retire existing debt. The Commission finds that the borrowing is consistent with the public good and approves the Petition.

I. BACKGROUND

On August 28, 2017, pursuant to RSA 369:1, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities ("Liberty" or "the Company") filed a Petition to Issue Long-Term Debt Securities ("Petition"). The Company's filing included testimony of Mark T. Timpe, Treasury Director for Liberty Utilities Corp.; information required by Puc Form F-4, Authority to Issue Securities; and a request for waivers of N.H. Code Admin. Rules Puc 308.12(b)(5), (7), and (9). Following discovery, on October 23, 2017, Staff issued a memorandum recommending Commission approval of the Petition and the requested waivers. The Petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2017/17-133.html

II. POSITIONS OF THE PARTIES

A. Granite State Electric

In Order No. 25,370, the Commission authorized the Company to issue up to $20 million in long-term debt securities. The debt issued under that authority consisted of four separate tranches obtained from the Company's corporate parent, Liberty Utilities Corp. ("LUC"). The Company seeks authority to replace and refinance the first tranche in the amount of $3,434,343.43 that matures on December 20, 2017. The first tranche was originally issued for 5 years, however, the Company proposes a 15-year term for the refinancing instruments, and proposes to price the debt based on the 15-year U.S. Treasury rate (published by Bloomberg one business day prior to closing) plus a credit spread of 160 basis points. The Company represents that this credit spread is equal to the average credit spread of LUC's recent 10- and 20-year private placement notes issued on March 24, 2017, which were issued at credit spreads of 145 basis points and 175 basis points respectively. The Company projects an assumed all-in interest rate for the proposed refinancing of 4.12 percent based on the 15-year U.S. Treasury bond yield of 2.52 percent as of June 30, 2017, subject to change up to the time of closing. Testimony of Mark T. Timpe at pages 2-5.

The Company represents that the indicative interest rate for the refinancing of 4.12 percent will be slightly higher than that for the current rate of 3.51 percent on its debt securities. The Company provides two reasons for the rate increase: U.S. Treasury rates are higher than they were in 2012; and to maintain the debt structure ladder approved by the Commission in Order No. 25,370, the proposed refinancing is for a term of 15 years resulting in a higher rate for a longer term. *Id* at 5-7.

The company provided its Form F-4 dated June 30, 2017, along with an attachment (Attachment MTT-1), to show the impact of the proposed refinancing on the Company's balance sheet (Exhibit 3), income statement (Exhibit 4), capitalization (Exhibit 5), and cost of debt (Exhibit 6). The Company estimates the cost of the refinancing to be $17,172 which consists of an issuance fee of 50 basis points. This fee is based on, and identical to, the fee paid by LUC to issue its most recent series of private placement notes totaling $750 million on March 24, 2017. *Id* at 4.

The Company calculates, on a pro forma basis that the interest rate increase will raise the annual interest expense by approximately $20,949 for a total of $1,151,449, as compared with its current interest expense of $1,130,500. The Company estimates that the combined effect of the debt issuance fee and the increase in interest expense results in a small reduction to the Company's retained earnings of $13,257; however, total long-term debt remains unchanged since no incremental borrowings will occur as part of the proposed transaction. As a result, the proposed refinancing has no impact on the Company's current capital structure of 25.2 percent debt and 74.8 percent equity. The Company has calculated a pro forma weighted average cost of debt, post-closing, of 5.97 percent based on the indicative rate for the refinancing of 4.12 percent, as compared with the Company's current average cost of debt of 5.90 percent. *Id* at 7; Petition at Bates page 16 (Attachment MTT-1).

The Company also submitted a request for waivers of Puc 308.12(b)(5) (source and use of funds and capitalization), (7) (copy of private placement memorandum), and (9) (copies of terms of new common and preferred stock), because there is no additional borrowing and because the associated rule provisions apply to financing methods other than long-term debt, making those sections of the rule inapplicable.

B. Staff

Staff recommended approval of the requested refinancing plan and the requested waivers from Puc Rule 308.12(b)(5), (7), and (9). Staff's Memorandum states:

> Staff has reviewed the Company's petition and supporting documents and believes that, if the Commission were to grant the requested waivers, Liberty's filing is complete and meets all requirements of Puc 308.12. It is Staff's opinion that, based on the total outstanding long term debt reported by Liberty of approximately $32 million, the proposed refinancing of existing debt in the amount of $3,434,343.43 will have no impact on Liberty's capital structure, and a negligible impact on the Company's cost of debt and revenue requirement. Given the long term nature of Liberty's assets, Staff supports the Company's position that continuing with the originally approved debt maturity ladder, which utilized 5, 10, and 15-year tranches, is an appropriate financing structure to maintain. As such, Staff supports the Company's position that approval of the petition would be in the public good, and in conformance with the review standards of RSA Chapter 369. Therefore, Staff recommends that the Commission grant the requested waivers and authorize Liberty to issue $3,434,343.43 in new intercompany debt, according to the proposed terms and interest rate outlined above, for the purposes of refinancing and replacing its existing intercompany debt in the same amount maturing on December 20, 2017.

Staff Memorandum at 2-3.

III. COMMISSION ANALYSIS

RSA 369:1 states a "public utility lawfully engaged in business in this state may, with the approval of the commission but not otherwise, issue and sell its stock, bonds, notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes. The proposed issue and sale of securities will be approved by the commission where it finds that the same is consistent with the public good." RSA 369:1.

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); *see* RSA 369:4 (finding of public good required for approval of long-term public utility debt). The rigor of an *Easton* inquiry varies depending on the circumstances of the request. As we have previously noted, "certain financing related circumstance are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Public Service Co. of N.H.*, Order No. 25,050 at 14 (December 8, 2009).

Here, we conduct an abbreviated review of this routine financing, because the Company is refinancing existing, mature debt, and not taking on incremental new debt. Based on the record, the Company's request has merit. The financing will have no impact on Liberty's capital structure and only a negligible impact on the Company's cost of debt and revenue requirement, while maintaining a previously approved debt maturity ladder that reflects the long-term nature of Liberty's assets. The Commission therefore finds that granting the Petition is consistent with the public good.

We also agree with the Company that Puc 308.12(b)(5), (7), and (9), which require the submission of specific documents related to debt and equity financings, are inapplicable to this petition. In this financing no stock is being issued and no incremental debt is proposed. Accordingly, under Puc 201.05(b)(1), which allows for waiving inapplicable requirements, we grant the requested waivers.

Based upon the foregoing, it is hereby

ORDERED, that the Petition by Liberty for approval to borrow money and issue evidence of indebtedness in an aggregate principal amount not to exceed $3,434,343.43 on the terms discussed in this order is hereby GRANTED; and it is

FURTHER ORDERED, that the requested waivers of Puc Rule 308.12(b)(5), (7), and (9), are hereby GRANTED.

By order of the Public Utilities Commission of New Hampshire this fifteenth day of December, 2017.

Martin P. Honigberg Chairman	Kathryn M. Bailey Commissioner	Michael S. Giaimo Commissioner

Attested by:

Debra A. Howland
Executive Director