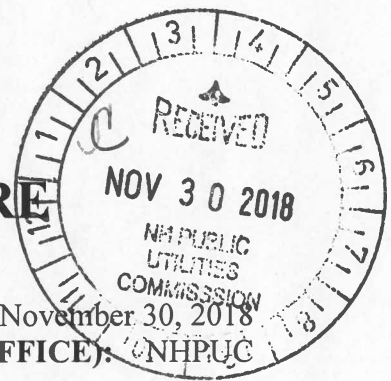


# STATE OF NEW HAMPSHIRE

Inter-Department Communication



DATE: November 30, 2018  
AT (OFFICE): NHPUC

**FROM:** David Goyette, Utility Analyst IH *DNG*

**SUBJECT:** DE 18-171 New Hampshire Transmission, LLC  
Petition for Approval of Financing

**TO:** Commission  
Debra Howland, Executive Director

## Summary

New Hampshire Transmission, LLC filed a petition in which it seeks authorization to enter into a third amended and restated loan agreement with NextEra Capital, its indirect holding company. The terms of the Third Amended and Restated Loan Agreement are essentially the same as loan agreements filed by NHT and approved by the Commission in 2013 and 2016. If approved, the Third Amended and Restated Loan Agreement would have a term of two years, allow a principal balance of long-term, secured debt securities of up to \$80,633,431 (comprised of refinanced existing debt of \$21,633,431 and new long-term debt not to exceed \$59 million), and an interest rate on New Loans of 232 basis points above the yield of a U.S. Treasury bond with a comparable term and amount. NHT stated that the proceeds from New Loans would be applied towards capital costs and operating expenditures associated with aging Seabrook Substation infrastructure concerns. NHT requested that the Commission grant approval of the financing no later than December 22, 2018. Staff has reviewed the filing and recommends that NHT's petition be approved as requested.

## Background and Analysis

On November 5, 2018, New Hampshire Transmission, LLC (NHT) filed a petition for approval of financing, pursuant to RSA 369:1 and Order No. 24,321. NHT stated that it seeks authorization to enter into a third amended and restated loan agreement (Third Amended and Restated Loan Agreement) with NextEra Capital Holdings, Inc. (NextEra Capital), NHT's lender and indirect holding company. NHT submitted a Form F-4 with supporting documentation and testimony of its president, Carrie Cullen Hitt. As with prior such requests, NHT stated that certain information requested in the Form F-4 were not applicable and therefore not included "because of the form the financing will take...a loan from an affiliated corporation." Of note, NHT has concurrently applied for approval for the proposed financing with the Federal Energy Regulatory Commission (FERC). As of the date of this memo, the FERC had not yet

issued a decision regarding NHT's application for authorization for the issuance of long-term debt securities under Section 204 of the Federal Power Act.

To provide context for NHT's current request, what follows here is a summary of Commission decisions related to ownership and financing requests for Seabrook Substation by NHT and its predecessor, Florida Power & Light Company (FP&L).

In DE 03-186, the Commission determined that as a majority owner of the Seabrook Substation, FP&L would be subject to limited regulation as a public utility (Order No. 24,258, December 31, 2003). The Commission subsequently approved a settlement agreement in which 88.23% ownership of Seabrook Substation was transferred to FP&L (Order No. 24,321, May 7, 2004). As a condition of that agreement, FP&L agreed to certain regulatory requirements, including those of RSA 369.

In DE 08-164, the Commission approved FP&L's request for Approval of Financing, to issue up to \$36 million of long-term debt to FPL Group Capital, Inc. (FPL Group Capital) to finance certain reliability upgrades at Seabrook Substation by order nisi (Order No. 24,935, January 30, 2009).

In DE 10-042, FP&L and NHT filed a request to transfer the ownership in the Seabrook Substation to NHT, in which NHT agreed to assume the duties, obligations, and responsibilities of FP&L under the settlement agreement in DE 03-186. The Commission approved the transfer of the Seabrook Substation to NHT by order nisi (Order No. 25,105, May 26, 2010).

In DE 10-062, (which ran concurrently with DE 10-042), FP&L filed a motion to amend the financing order in DE 08-164 with an increase to the authorized limit on long-term debt to \$63 million. The Commission granted approval to FP&L's (and its successor, NHT), request to amend the financing order in DE 08-164 by order nisi (Order No. 25,138, August 12, 2010). As a result, FP&L's long-term debt obligation to FPL Group Capital was transferred to NHT.

In DE 13-138, NHT filed a request to refinance its long-term debt obligation with FPL Group Capital with an amended and restated loan agreement (New Loan Agreement) with NextEra Capital. NHT stated in its request that the New Loan Agreement would not exceed \$36 million, of which \$16 million of its current obligation to FPL Group Capital would be repaid and converted into a new borrowing and up to \$20 million of additional borrowings (New Loans) could be issued during a two-year authorization period to finance capital costs, facility upgrades, and operational expenses at the Seabrook Substation. The Commission approved NHT's refinancing request by order nisi (Order No. 25,556, July 30, 2013).

In DE 16-813, NHT requested authorization to enter into a second amended and restated loan agreement (Second Amended and Restated Loan Agreement) with NextEra Capital. Under the Second Amended and Restated Loan Agreement the term for issuing New Loans was extended to May 31, 2018, the source for the U.S. Treasury bond rate

was changed to the rate published in the Wall Street Journal on the prior business day, and the additional margin, to be added to the rate of a comparable-term U.S. Treasury bond to determine the interest rate of a New Loan, was fixed at 232 basis points (2.32%). The Commission approved NHT's requests by order nisi (Order No. 25,955, October 21, 2016).

#### Current Request

NHT stated in its petition that the terms of the current financing are essentially the same as those approved by the Commission (and the FERC) in 2013 and 2016.

In its current request, NHT is seeking approval for the following:

- (a) Total borrowings not to exceed \$80,633,431, which would be comprised of the existing balance of \$21,633,431 and New Loans of up to \$59,000,000.
- (b) An extension of the availability period for New Loans, with a term that begins on January 1, 2019 and ends on January 1, 2021.

In her testimony, Carrie Cullen Hitt, President of NHT, indicated that "[A]lthough the Third Amended and Restated Loan Agreement was executed on September 24, 2018, New Loans will only be made...after obtaining the approval of this Commission and [the] FERC." Hitt stated that accrued interest and fees from New Loans would have a maturity of 30 years from the closing date of the original loan facility, September 26, 2043, and would be secured. She added that the interest rate on all debt security issuances would be based on the rate of a U.S. Treasury bond with a comparable maturity and that New Loans would be based on the yield of a U.S. Treasury bond with a remaining term to maturity that most closely approximates that of a New Loan issuance plus 232 basis points (2.32%). Hitt stated that the yield for a U.S. Treasury bond would be based on the rate published in the Wall Street Journal on the day prior to the date of a New Loan issuance.

In her testimony, Hitt stated that the proceeds of the financing will be used to fund a "multi-phase solution" to address issues with aging Seabrook Substation infrastructure, including horizontal gas-insulated lines, circuit breakers, insulators and other equipment, and for other capital costs and operating expenditures. She added that the upgrades include the procurement of equipment, systems, facilities, materials and supplies, and the conduct of work and services relating to Seabrook Substation.

In its petition, NHT asserted that it does not have any retail customers and as such has no retail rates, and that it only has a tariff for FERC regulated transmission rates and is therefore subject only to limited regulation by the Commission. NHT stated the proposed financing is for the public good, as it is necessary for NHT to have the right to borrow amounts in excess of its current \$21.6 million obligation to NextEra Capital in order to finance reliability upgrades at Seabrook Substation. NHT added that, because of its geographic location near the north-south interface, connecting Maine, New

Hampshire, and Massachusetts, and because it connects three major 345kV transmission lines, the Seabrook Substation is a critical node in the New England Transmission system.

#### Staff's Analysis and Recommendation

Based on its review of the loan agreements filed by NHT with its requests for financings in 2008 (Line of Credit Agreement), 2013 (Amended & Restated Loan Agreement) and 2016 (Second Amended & Restated Loan Agreement) and with its current request (Third Amended & Restated Loan Agreement), Staff found that, except for the maximum amount of borrowings permitted, \$80,633,431, the maximum amount of New Loans permitted, \$59,000,000, and the authorization term, a two-year period that begins on January 1, 2019, all other terms and conditions of the original loan agreement as amended are substantially the same.

As noted in its recommendations regarding NHT's prior financing requests, in DE 13-138 and DE 16-813, Staff views NHT's approval for financing petition differently than it does a "typical" petition from a fully regulated electric utility. Fully regulated utility financings have implications to the utility's capital structure, cost of capital, and revenue requirements. In this case, however, even though financing still affects the cost of service, because NHT is a transmission utility, the resulting revenue requirements and customer rates fall under the purview of the FERC and not that of the Commission. Even so, Staff does note that, based on the pro-forma financial statements included in the supporting material, following the proposed financing additional paid-in capital and retained earnings will increase NHT's stockholders' equity sufficiently to provide for a capital structure that will consist of the same component percentages, 40% debt and 60% equity, that existed prior to the transactions.

The purpose of the financing is to pay down NHT's current obligation and for routine capital costs, maintenance expenditures, and facility upgrades for Seabrook Substation. As highlighted in NHT's filing, Seabrook Substation is the interconnection point for three 345 kV transmission lines and its transformer and interconnection facilities "are essential to the reliable operation of the ISO New England, Inc. transmission network. Staff therefore considers the purpose of the funds from the financing, and the terms for the financing, under which the applied rate is benchmarked to those of U.S. Treasury bonds and in which securities are secured by Seabrook Substation assets, to be reasonable.

Staff believes that the present filing is in accordance with the terms of the settlement agreement in DE 03-186 and the requirements of RSA 369:1. Staff considers the changes proposed by NHT to its loan agreement to be reasonable and in the public good, and recommends that the Commission approve NHT's petition for Approval of Financing.

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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**Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.**

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**FILING INSTRUCTIONS:**

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND  
EXECUTIVE DIRECTOR  
NHPUC  
21 S. FRUIT ST, SUITE 10  
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**