

1 STATE OF NEW HAMPSHIRE
2 PUBLIC UTILITIES COMMISSION

3

4 April 9, 2008 - 1:33 p.m.
Concord, New Hampshire

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RE: DE 07-070
7 PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
Petition for Approval of the Issuance
8 of Long-Term Debt Securities. (Hearing
regarding Motion to Further Amend
9 Finance Order to Increase Authorized
Credit Spread)

10

11 PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
12 Commissioner Clifton C. Below

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14 Connie Fillion, Clerk

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16 APPEARANCES: Reptg. Public Service Co. of New Hampshire:
Catherine E. Shively, Esq.

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18 Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

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23 Court Reporter: Steven E. Patnaude, LCR No. 52

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4 WITNESS: PATRICIA C. COSGEL

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11 EXHIBITS

12 EXHIBIT NO. DESCRIPTION PAGE NO.

13 13 Petition containing Motion to Further 5
14 Amend Finance Order and supplemental
testimony and supporting attachments

15 14 Response to SUPP-03, Q-SUPP-001 11

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19 CLOSING STATEMENTS BY:

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good afternoon.

3 We'll open the hearing in docket DE 07-070. On March 21,

4 Public Service Company of New Hampshire filed a motion to

5 amend finance orders issued in docket number DE 07-070.

6 In Order 24,781, the Commission had granted the Company

7 authority to issue up to \$200 million aggregate principal

8 amount of long-term debt securities through December 31,

9 2008, for the purposes of repayment of short-term debt and

10 funding working capital, and approved at that time a

11 credit spread of 200 basis points, and, in a subsequent
12 order, approved a spread of 300 basis points. The current
13 petition seeks to further increase the credit spread to
14 400 basis points.

15 A supplemental order of notice was
16 issued on March 27 setting the hearing for this afternoon.

17 And, I'll note for the record we have the affidavit of
18 publication has been filed by the Company. And, let's
19 take appearances.

20 MS. SHIVELY: Catherine Shively, for
21 Public Service Company of New Hampshire.

22 CHAIRMAN GETZ: Good afternoon.

23 CMSR. MORRISON: Good afternoon.

24 CMSR. BELOW: Good afternoon.

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[WITNESS: Cosgel]

1 MS. AMIDON: Good afternoon. Suzanne
2 Amidon, for Commission Staff. With me today is Steve
3 Mullen, who is a Utility Analyst with the Electric
4 Division.

5 CHAIRMAN GETZ: Good afternoon.

6 CMSR. MORRISON: Good afternoon.

7 CMSR. BELOW: Good afternoon.

8 CHAIRMAN GETZ: Is there anything we

9 need to address before we hear from the Company's witness?

10 MS. SHIVELY: I don't believe so.

11 CHAIRMAN GETZ: Please proceed.

12 (Whereupon Patricia C. Cosgel was duly

13 sworn and cautioned by the Court

14 Reporter.)

15 PATRICIA C. COSGEL, SWORN

16 DIRECT EXAMINATION

17 BY MS. SHIVELY:

18 Q. Would you please state your name for the record.

19 A. It's Patricia Cosgel, C-o-s-g-e-l.

20 Q. And, by whom are you employed?

21 A. Northeast Utilities.

22 Q. And, what is your position?

23 A. I'm the Assistant Treasurer of Finance for Northeast

24 Utilities and its subsidiaries.

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1 Q. What are your duties in that position?

2 A. I'm responsible for raising and managing debt and

3 equity of the holding company and all of its

4 subsidiaries.

5 Q. Have you previously submitted testimony to this

6 Commission and in this docket?

7 A. Yes.

8 Q. Are you familiar with PSNH's motion to further amend

9 finance order to increase authorized credit spread and

10 the supporting supplemental testimony?

11 A. Yes.

12 Q. And, was this material prepared by you or under your

13 direction and supervision?

14 A. Yes.

15 Q. And, is it true and correct to the best of your

16 knowledge and belief?

17 A. Yes.

18 Q. Do you have any additions or corrections?

19 A. No.

20 MS. SHIVELY: I'd like to mark the

21 Company's petition and the supporting supplemental
22 testimony as "Exhibit 13".

23 CHAIRMAN GETZ: So marked.

24 (The document, as described, was

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1 herewith marked as Exhibit 13 for

2 identification.)

3 BY MS. SHIVELY:

4 Q. Would you please summarize your testimony.

5 A. The testimony is a request to increase the authorized

6 credit spread from 300 basis points, which I realize we

7 were -- was an increase from the previously authorized

8 200 basis points, to reflect the ongoing volatility and

9 rising credit spreads in the financial markets, and so

10 we'd be able to issue PSNH's debt at market rates.

11 Q. And, although credit spreads continue to widen, does

12 this necessarily mean that financing costs are

13 increasing?

14 A. No, because Treasury rates and underlying benchmark

15 interest rates have been falling at the same time, and

16 all-in yields are still at very attractive rates.

17 Q. Is there anything else you'd like to add for the

18 record?

19 A. No.

20 MS. SHIVELY: The witness is available

21 for cross-examination.

22 CHAIRMAN GETZ: Thank you. Ms. Amidon.

23 MS. AMIDON: Thank you. Good afternoon.

24 CROSS-EXAMINATION

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1 BY MS. AMIDON:

2 Q. If you look at Page 4 of your testimony, at Lines 8

3 through 11, you state that transactions smaller than

4 250 million, such as PSNH's anticipated \$110 million

5 issuance, could require a minimum of 15 to 25 basis

6 point premium for 10-year and 30-year debt issuances.

7 While that premium is not shown on the testimony, it is

8 shown on one of the attachments to your testimony,

9 PCC-1, at Page 2, is that right?

10 A. Yes.

11 Q. And, could you point out where that is for the

12 Commission.

13 A. On Attachment PCC-1, Page 2, there are two blocks of

14 interest, of indicative rates provided for PSNH. It

15 looks like this, with two tables. The top block shows,

16 for different maturities, the cost of financing for

17 Public Service Company of New Hampshire. The credit

18 spread is called the "Reoffer Spread". And, if I look

19 at the top table, that's five lines down, "Reoffer

20 Spread". It goes from 2 years, at +255, all the way to

21 30 years at +250 to 255.

22 Q. And, so, if you look at 10 years, you have 240 to 245?

23 A. To 245, correct.

24 Q. Okay. And, for 30 years, 250 to 255?

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1 A. 255. The table below it has the same information, but

2 it has the credit spreads for non-index eligible

3 offering by Public Service Company of New Hampshire.

4 Again, the fifth line down, "Reoffer Spread" is the

5 credit spread. And, if you look across, the 10 years

6 is at +255 to 260, and the 30 years is +265 to 270.

7 And, that reflects the incremental credit spread

8 required to do a transaction that's less than

9 250 million in size.

10 Q. Thank you. Then, if we go to the next page of your

11 testimony, Page 5, at Lines 8 through 10, you reference

12 that "PSNH has entered into an interest rate swap".

13 A. Uh-huh.

14 Q. Could you tell us when that swap was entered into?

15 A. That swap was entered into on December 4th of 2007.

16 Q. Were there any costs associated with entering into that

17 swap?

18 A. No.

19 Q. And, your testimony references that the rate was fixed

20 at 3.866 percent. How long is that percentage rate for

21 the 10-year Treasury bond locked?

22 A. It's locked through May 23rd, 2008.

23 Q. By entering into this swap, does that mean that PSNH

24 will definitely be issuing 10-year bonds, rather than

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1 bonds of different maturity?

2 A. No. Because we lock in -- We don't lock in in 10-year

3 bonds, we lock in ten years of cash flows. So that we

4 could issue a 10 or a 30-year bond, that would be most

5 likely, but we're still looking at a 10-year as our

6 most likely.

7 Q. The 10-year is most likely?

8 A. Ten or more, because we locked in ten years of cash

9 flows.

10 Q. So, what would happen if the financial situation

11 changed significantly before the issuance?

12 A. What would happen to the hedge? If we issued less than

13 ten years, is that --

14 Q. Well, if financial conditions change?

15 A. Oh. We would still have the hedge in place.

16 Q. Okay.

17 A. Because it's locked through the 23rd.

18 Q. Now, I want to refer you to the second attachment to

19 your testimony, which is PCC-2, Page 1 of 1.

20 A. Yes.

21 Q. And, if you look down at the second set of columns, for
22 year/quarter 2008, the second quarter, --

23 A. Uh-huh.

24 Q. -- this is an estimate, is that correct?

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1 A. It's a forecast.

2 Q. It's a forecast.

3 A. Correct.

4 Q. That's what I meant to ask. Right. And, if you go to
5 the 10-year, using that, at that line, --

6 A. Uh-huh.

7 Q. -- the 2008 Quarter 2, if you go about seven, I think
8 it's the seventh column over, "Treasury Notes Average
9 Market Yield 10-Year", --

10 A. Yes.

11 Q. -- the percentage there is "3.293 percent".

12 A. Right.

13 Q. What is the -- How do you explain the difference
14 between this "3.293 percent" and the "3.866 percent"?

15 A. Sure. This is a forecast as of March of 2008, provided
16 by Global Insight, and it's a forecast that we get each
17 month from Global Insight. As of March, they're saying
18 that the second quarter 10-year forecast is
19 3.293 percent. We locked in, when we did our forward
20 starting swap in December, we locked in when the
21 Treasury rate was the 3.8 percent. But the forecast at
22 the time was based on a November Global Insight
23 forecast. And, for that quarter, and for each quarter
24 in 2008, in that forecast, the 10-year was over

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1 4 percent. So, when we locked it in, the rates were
2 higher. But, since then, the Fed has cut several times
3 and interest rates have dropped. So, the more recent
4 vintages of this forecast has shown lower rates.

5 Q. Thank you.

6 A. Uh-huh.

7 Q. What I'd like to do now is mark for identification as
8 "Exhibit 14" the most recent data request that was
9 submitted by the Staff. I guess this is -- And, this

10 is Supplemental 3, one additional data request in the

11 third set. Are you familiar with this document?

12 A. Yes.

13 Q. And, could you just tell me what the date of the letter

14 is for this set of responses to the data request?

15 A. April 3rd.

16 Q. Thank you. Do you have a copy?

17 A. Yes.

18 Q. Thank you.

19 (Atty. Amidon distributing documents.)

20 CHAIRMAN GETZ: Okay. We'll mark the

21 April 3 letter from the Company as "Exhibit Number 14" for

22 identification.

23 (The document, as described, was

24 herewith marked as Exhibit 14 for

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1 identification.)

2 MS. AMIDON: And, I will say, for the

3 benefit of the record, what this line that is across from

4 Potomac Electric Power was drawn by me, and it was
5 intended as a reference for me to the Moody's and S&P
6 rating for PSNH, which is Baa1 for Moody's and BBB+ for
7 S&P. So, I had used that as a reference point and so it
8 appears in this copy.

9 BY MS. AMIDON:

10 Q. But looking at these responses, could you relate the
11 reoffer spread shown in the far right column to the
12 information that you provided in your most recent
13 testimony?

14 A. Sure. This is a list of all of the electric and gas
15 utility offerings in 2008 to date. And, it's separated
16 by first mortgage bond offerings, which is secured, and
17 the second grouping is by unsecured debt. Of all these
18 offerings, if you look at the farthest right column,
19 that's the credit spread that we're talking about. You
20 can see somewhat over time how those credit spreads
21 have increased from the issuances offered in January,
22 up through April 1st of this year, although each
23 individual issuance has its own credit issues, so
24 they're all not necessarily comparable to each other.

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1 And, you can see that, of all these transactions, all
2 but one are over 250 million in size. And, the one
3 that was is ITC Midwest, which is a pure transmission
4 company, and has its own attractiveness to investors
5 that affect its credit spread.

6 Q. Thank you. How do these coupon rates shown on this
7 exhibit compare with what you expect to receive for a
8 coupon rate on the upcoming issuance?

9 A. Yes. We expect to see, as we had in our table, around
10 a 250 basis point credit spread, just given current
11 market conditions, which looks consistent with what
12 we're seeing for some of the recent electric utility
13 issuances. These, again, were all over 250 or over.
14 So, there's a potential that our credit spread could be
15 higher than that, because we have to add the extra 15
16 to 20 basis points for the size issue. But, right now,
17 the markets are still showing us in about that same
18 credit spread range of 250-260.

19 Q. Thank you. In general, could you explain or comment on

20 any changes that have happened in the financial markets
21 since you developed your testimony on March -- that you
22 filed on March 20th?

23 A. I think that what's happened is it's more of the same,
24 and continues the same, the impacts of the sub-prime

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1 lending crisis on financial institutions, more large
2 losses announced at financial institutions. A
3 recognition by economists that we are officially in a
4 recession. At this point, we have enough data to look
5 back and say we've been in a recession at this point.
6 And, that's generally what continues to drive the
7 market volatility and uncertainty.

8 MS. AMIDON: Mr. Mullen has an
9 additional question for you, or questions.

10 BY MR. MULLEN:

11 Q. Good afternoon. So, the request now for up to 400
12 basis point spread is more to provide, I don't know if
13 "cushion" is the right word, but a little bit of
14 leeway, in terms of, when you get to closing, you don't

15 want to have something that's say 310, and say "Oh, we
16 can't close because we're only authorized up to 300"?

17 A. Correct.

18 Q. One other question. Going back to PCC-2, when we were
19 looking at the second quarter 2008 forecasted rate for
20 the 10-year bond, --

21 A. Uh-huh.

22 Q. -- where it showed as 3.293. With the Treasury rates
23 being lower than when you locked in your -- when you
24 did your interest rate swap, would that interest rate

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1 swap prohibit you from doing a deal that might have a
2 better rate?

3 A. Yes. Because you -- it's just like, if you think of it
4 as when you go and buy a new house to lock in your
5 mortgage. You know you have a planned closing in the
6 future. And, to remove the uncertainty of what your
7 interest costs are going to be at the closing, as you
8 work through your bank loan and get everything all set

9 up, you lock in a rate. And, despite what the rate is
10 at closing in the market, the rate you locked in is
11 your effective rate. So, the rates could rise or fall
12 at the time you do your closing, but you're still
13 paying the rate that you locked in. And, it's the same
14 thing that we're doing with the bonds.

15 Q. Sure. It's just a matter of having some certainty, --

16 A. Certainty.

17 Q. -- in terms of going in, just like if you were going to
18 close a mortgage?

19 A. Right.

20 MR. MULLEN: Okay. Thank you.

21 WITNESS COSGEL: Sure.

22 MS. AMIDON: We have no further
23 questions.

24 CHAIRMAN GETZ: Okay. Nothing from the

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1 Bench. Any redirect?

2 MS. SHIVELY: No.

3 CHAIRMAN GETZ: Okay. Then, I think

4 that completes the questions for the witness. You're
5 excused. Thank you.

6 WITNESS COSGEL: Thanks.

7 CHAIRMAN GETZ: Any objection to
8 striking identifications and entering the exhibits as full
9 exhibits?

10 MS. AMIDON: No.

11 MS. SHIVELY: No.

12 CHAIRMAN GETZ: Hearing no objection,
13 they will be entered as full exhibits. Is there anything
14 further from Staff or anything prior to allowing for
15 closings?

16 MS. AMIDON: I would suggest that the
17 Company tell you when they would like to receive an order
18 on this docket, on this proceeding. I believe it's April
19 22nd they're looking for an order. I thought it might be
20 appropriate for the Commission to know at this point that
21 they were requesting an order as of April 22nd.

22 MS. SHIVELY: Yes.

23 CHAIRMAN GETZ: Okay. Thank you.
24 Anything in closing, Ms. Amidon?

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1 MS. AMIDON: In closing, we believe that
2 the testimony supports their request. The Commission
3 Staff has reviewed the filing, and it has made discovery
4 on it, and believes that the request is consistent with
5 what we have seen going on in the financial markets. And,
6 we believe the Commission should approve the motion to
7 amend the financing order.

8 CHAIRMAN GETZ: Okay. Thank you.
9 Ms. Shively.

10 MS. SHIVELY: Our request is designed to
11 provide us with a reasonable flexibility in this volatile
12 market. And, as our witness has indicated, things
13 continue to change. And, this will hopefully enable us to
14 access the markets on a prompt and reasonable basis. And,
15 we would ask the Commission to approve the request.

16 CHAIRMAN GETZ: Okay. All right. Then,
17 we will close the hearing and take the matter under
18 advisement. Thank you.

19 (Whereupon the hearing ended at 1:52

20 p.m.)

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