

THE STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 10-_____

DIRECT TESTIMONY
OF
SUSAN B. WEBER

APPLICATION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE FOR THE AUTHORIZATION OF (1) THE ISSUANCE OF NEW TAX-EXEMPT OR TAXABLE BONDS FOR THE PURPOSE OF REFINANCING THE \$75,000,000 1992 SERIES D AND \$44,800,000 1993 SERIES E POLLUTION CONTROL REVENUE BONDS; (2) THE ISSUANCE OF NEW TAXABLE BONDS FOR THE PURPOSE OF REFINANCING THE \$89,250,000 2001 SERIES A POLLUTION CONTROL REVENUE BONDS; (3) THE MORTGAGING OF PROPERTY; (4) THE TERMINATION OF THE MBIA INSURANCE POLICY ON THE SERIES A BONDS; AND (5) THE EXECUTION OF INTEREST RATE TRANSACTIONS.

November 12, 2010

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TABLE OF CONTENTS

I.	INTRODUCTION	3
II.	PURPOSE OF TESTIMONY	4
III.	DESCRIPTION OF THE TAX-EXEMPT SERIES D BONDS AND SERIES E BONDS AND PROPOSED ISSUANCE OF NEW BONDS	6
IV.	DESCRIPTION OF THE \$89,250,000 2001 TAX-EXEMPT SERIES A BONDS, AND PROPOSED ISSUANCE OF THE NEW SERIES A BONDS.	15
V.	MORTGAGING OF PROPERTY	21
VI.	TERMINATION OF THE MBIA INSURANCE POLICY ON THE SERIES A BONDS	21
VII.	EXECUTION OF INTEREST RATE TRANSACTIONS	25

1 **I. INTRODUCTION**

2 **Q. Would you please state your name, business address and position?**

3 A. My name is Susan B. Weber. My business address is 56 Prospect Street, Hartford
4 Connecticut. I am Assistant Treasurer – Finance of Northeast Utilities Service Company
5 (“NUSCO”), Northeast Utilities’ (“NU”) Service Company affiliate, and Public Service
6 Company of New Hampshire (“PSNH” or the “Company”), subsidiaries of NU. I am
7 providing this testimony on behalf of PSNH.

8

9 **Q. What are your responsibilities with respect to PSNH?**

10 A. I am responsible for raising the capital necessary to meet PSNH’s long-term and short-
11 term financing requirements as well as managing other treasury-related functions
12 including cash management.

13

14 **Q. Please summarize your educational background.**

15 A. In January 1995, I earned a Master of Business Administration with a concentration in
16 Finance from the University of Hartford. In May 1982, I earned a Bachelor degree in
17 Mechanical Engineering from the University of Connecticut.

18

19 **Q. Please summarize your professional experience.**

20 A. I joined NUSCO in June 1982 as an Assistant Engineer in the Capacity Planning
21 Department. Since I joined NUSCO, I have held various positions of increasing
22 authority, including Project Manager and Manager of Corporate Planning. Immediately
23 prior to my current position, I served as the Director of Enterprise Risk Management at
24 NUSCO. I was elected to the position of Assistant Treasurer- Finance effective January
25 1, 2009.

1 **Q. Have you previously testified in any regulatory proceedings?**

2 A. I have previously testified before the State of New Hampshire Public Utilities
3 Commission in Docket No. DE 10-122, Public Service Company of New Hampshire
4 Petition for Approval of Issuance of Long and Short Term Debt and submitted testimony
5 to the State of Vermont Public Service Board on behalf of PSNH in Docket No. 7652,
6 Petition of Public Service Company of New Hampshire for approval of: (1) the Issuance
7 of up to \$500 Million in Long-term Debt Securities; (2) the Mortgaging of Property; (3)
8 Execution of Interest Rate Transactions; and (4) Long-term borrowing pursuant to an
9 Unsecured Revolving Credit Agreement. I have also testified in the Commonwealth of
10 Massachusetts on behalf of Western Massachusetts Electric Company in D.P.U. 10-64,
11 Western Massachusetts Electric Company's Petition for Approval of Issuance of Long-
12 Term Debt and Execution of Interest Rate Transactions, and Related Requests and in
13 the State of Connecticut on behalf of The Connecticut Light and Power Company in
14 Docket No. 06-12-14RE03, Application of The Connecticut Light and Power Company
15 for Approval of the Issuance of Long-Term Debt and Execution of Hedging Transactions
16 – Hedging Review.

17
18 **II. PURPOSE OF TESTIMONY**

19 **Q. What is the purpose of your testimony?**

20 A. The first purpose of my testimony is to request the authorization for issuance by PSNH
21 of up to \$119,800,000 in aggregate principal amount of new tax-exempt bonds or up to
22 \$123,000,000 in aggregate principal amount of new taxable bonds in the institutional
23 debt market ("New Bonds") and the use of proceeds from this issuance of New Bonds
24 for the purpose of refinancing its \$75,000,000 1992 tax-exempt Series D Pollution
25 Control Revenue Bonds ("Series D Bonds"), refinancing its \$44,800,000 1993 tax-

1 exempt Series E Pollution Control Revenue Bonds ("Series E Bonds"), and in the case
2 of an issuance of new taxable debt, also pay any call premiums required and pay related
3 issuance expenses from the bond proceeds.

4
5 Second, to request authorization for the issuance by PSNH of up to \$91,000,000 in
6 aggregate principal amount of new taxable bonds in the institutional debt market ("New
7 Series A Bonds") and the use the proceeds from this issuance of New Series A Bonds
8 for the sole purpose of refinancing its \$89,250,000 2001 tax-exempt Series A Pollution
9 Control Revenue Bonds ("Series A Bonds"), pay any call premium required and pay
10 related issuance expenses.

11
12 Third, to request authorization for PSNH to mortgage its property in connection with the
13 proposed financings.

14
15 Fourth, in the event PSNH decides not to pursue a refinancing of the Series A Bonds
16 with taxable bonds, to request authorization to terminate the MBIA Insurance policy on
17 the Series A Bonds upon a remarketing (to change the interest mode) where the Series
18 A Bonds continue to be tax-exempt.

19
20 Fifth, to request authorization to enter into transactions to mitigate the interest rate risk
21 (the "Interest Rate Transactions") associated with the proposed issuance of New Bonds
22 and New Series A Bonds.

1 **III. DESCRIPTION OF THE TAX-EXEMPT SERIES D BONDS AND SERIES E BONDS**
2 **AND PROPOSED ISSUANCE OF NEW BONDS**

3 **Q. Please describe the tax-exempt Series D Bonds and Series E Bonds PSNH is**
4 **seeking authorization to refinance with proceeds from the issuance of New**
5 **Bonds.**

6 A. The Series D Bonds were issued on December 17, 1992 in a variable interest rate mode
7 with a maturity date of May 1, 2021 and subsequently converted to a fixed rate mode on
8 May 1, 1998, with a coupon of 6.00%. The Series D Bonds contain a call option that
9 allows PSNH to redeem these bonds at a price equal to 102% of principal starting on
10 May 1, 2008. This rate declines at 0.5% annually each May 1 to a final price equal to
11 100% of principal by May 1, 2012. As of May 1, 2010, this call option was 101% of
12 principal.

13
14 The Series E Bonds were issued on December 15, 1993 in a variable interest rate mode
15 with a maturity date of May 1, 2021 and subsequently converted to a fixed rate mode on
16 May 1, 1998, with a coupon of 6.00%. The Series E Bonds contain a call option that
17 allows PSNH to redeem these bonds at a price equal to 102% of principal starting on
18 May 1, 2008. This rate declines at 0.5% annually each May 1 to a final price equal to
19 100% of principal by May 1, 2012. As with the Series D Bonds, as of May 1, 2010, this
20 call option was 101% of principal.

21
22 Two series of PSNH First Mortgage Bonds ("FMBs") in an aggregate principal amount
23 equal to and bearing interest at the same rate as the Series D Bonds and Series E
24 Bonds evidence and secure PSNH's obligation to repay these bonds.

1 **Q. Please describe the New Bonds that PSNH is requesting authorization to issue.**

2 A. As noted above, the Series D Bonds and Series E Bonds each became callable on May
3 1, 2008, which provides the opportunity for PSNH to refinance these bonds. PSNH will
4 refinance these bonds using the proceeds from the issuance of the New Bonds if
5 positive net present value ("NPV") savings can be achieved over the remaining term of
6 the Series D Bonds and Series E Bonds (through May 1, 2021) taking into account
7 interest expense, the call premiums and associated issuance costs. The New Bonds
8 would be issued in one or more series to replace the Series D Bonds and Series E
9 Bonds and be comparable new securities, issued in either the tax-exempt bond market
10 through the remaining May 1, 2021 maturity of the Series D Bonds and Series E Bonds
11 and secured by one or more series of PSNH FMBs or in the taxable bond market in the
12 form of one or more series of PSNH FMBs with a maturity of up to 40 years.

13

14 **Q. Why is PSNH requesting the flexibility to issue taxable debt and use the proceeds**
15 **to refinance the tax-exempt Series D Bonds and Series E Bonds?**

16 A. The Company requests the flexibility to issue the New Bonds as taxable debt so it has
17 the ability to choose which market may be more economic at the time of refinancing.
18 Based on current market conditions and discussions with our investment banks, it is
19 currently more economic to issue taxable debt to refinance the Series D Bonds and
20 Series E Bonds than it is to issue tax-exempt debt for this purpose. The fact that the
21 interest on the Series D Bonds and Series E Bonds is subject to the Alternative
22 Minimum Tax, coupled with investors' current preference for longer maturity tax-exempt
23 debt (greater than 15 years), has resulted in tax-exempt debt pricing that exceeds
24 taxable debt pricing for the refinancing of Series D Bonds and Series E Bonds, each of
25 which mature in about ten years. Therefore, PSNH requests the flexibility to refinance

1 the Series D Bonds and Series E Bonds with the issuance of the New Bonds as either
 2 tax-exempt or taxable debt depending on which market provides the most favorable
 3 pricing at the time of refinancing.

4
 5 **Q. What is the current indicative pricing for a taxable or tax-exempt refinancing of**
 6 **the Series D Bonds and Series E Bonds?**

7 A. The table below summarizes the current indicative tax-exempt and taxable pricing for
 8 the New Bonds based on current pricing information.

	Indicative Pricing Thru Scheduled 2021 Maturity		30-Year Tenor
	Tax-exempt Debt	Taxable Debt	Taxable Debt
Series D	4.75%	3.65%	5.30%
Series E	4.75%	3.65%	5.30%

10 Source: tax-exempt pricing from Morgan Stanley as of 10/28/2010 and taxable pricing
 11 from Barclays Capital as of 10/28/2010, each for institutional debt.
 12
 13

14 **Q. What are the estimated issuance fees PSNH would incur for a taxable or tax-**
 15 **exempt refinancing of the Series D Bonds and Series E Bonds?**

16 A. The following tables list the expected issuance fees associated with PSNH's refinancing
 17 of the Series D Bonds and Series E Bonds in today's market environment.

Fee	Series D Bonds	
	Tax-Exempt Debt	Taxable Debt
Underwriting Fees ¹	\$506,250	\$487,500
Business Finance Authority ²	\$562,500	\$0
External Auditor ³	\$35,000	\$35,000
Rating Agencies ⁴	\$101,250	\$172,500
Legal ⁵	\$185,000	\$30,000
Miscellaneous ⁶	\$10,000	\$16,000
Total	\$1,400,000	\$741,000

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- 1. 0.675% of issuance amount for 10-year tax-exempt debt and 0.65% of issuance amount for 10-year taxable debt.
- 2. 0.75% of issuance amount for tax-exempt debt, not necessary for taxable debt.
- 3. Deloitte & Touche LLP.
- 4. Higher fees are charged by the rating agencies for taxable issuances.
- 5. Legal fees for tax-exempt debt include fees for BFA's counsel and other issuance counsel, not required for taxable debt.
- 6. Miscellaneous includes fees for registering the proposed debt with the Securities and Exchange Commission (taxable debt only), printing, annual administrative trustee fees and miscellaneous underwriter expenses.

Fee	Series E Bonds	
	Tax-Exempt Debt	Taxable Debt
Underwriting Fees ¹	\$302,400	\$291,200
Business Finance Authority ²	\$336,000	\$0
External Auditor ³	\$35,000	\$35,000
Rating Agencies ⁴	\$58,170	\$160,420
Legal ⁵	\$185,000	\$30,000
Miscellaneous ⁶	\$10,000	\$14,000
Total	\$926,570	\$530,620

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- 1. 0.675% of issuance amount for 10-year tax-exempt debt and 0.65% of issuance amount for 10-year taxable debt.
- 2. 0.75% of issuance amount for tax-exempt debt, not necessary for taxable debt.
- 3. Deloitte & Touche LLP.
- 4. Higher fees are charged by the rating agencies for taxable issuances.
- 5. Legal fees for tax-exempt debt include fees for BFA's counsel and other issuance counsel, not required for taxable debt.
- 6. Miscellaneous includes fees for registering the proposed debt with the Securities and Exchange Commission (taxable debt only), printing, annual administrative trustee fees and miscellaneous underwriter expenses.

24 **Q. Based on recent indicative pricing and issuance fees, would PSNH issue tax-**
25 **exempt or taxable debt to refinance the Series D Bonds and the Series E Bonds?**

26 **A.** If PSNH were to access the market today to refinance the Series D Bonds and the
27 Series E Bonds through their existing maturity, the Company would look to issue taxable
28 debt based upon present indicative pricing and issuance fees.

1 **Q. Please describe the estimated NPV savings if PSNH were to issue New Bonds in**
2 **the taxable market.**

3 A. Based upon recent rate indications, PSNH could issue the New Bonds with a term
4 through the existing May 1, 2021 maturity of the Series D Bonds and Series E Bonds at
5 a taxable coupon rate of approximately 3.65% compared to the current tax-exempt
6 coupon rate of 6.00%; resulting in cumulative NPV savings of approximately
7 \$21,880,000 (comprised of \$13,753,000 for the Series D Bonds and \$8,127,000 for the
8 Series E Bonds,) [see Exhibit 1, Pages 1 through 4 for estimated NPV cost calculations].
9 As noted previously, however, PSNH could choose to issue the New Bonds in the
10 taxable market with a maturity of up to 40 years.

11
12 The Company would only execute the refinancing of the Series D Bonds and Series E
13 Bonds if the transactions would result in positive NPV savings for customers over the
14 remaining term of the existing bonds. Positive NPV savings would be achieved if PSNH
15 refinanced the Series D Bonds and the Series E Bonds, as taxable debt and bearing
16 interest through their current May 1, 2021 maturity, at less than the break-even coupon
17 rates of approximately 5.75% and 5.72%, respectively.

18
19 **Q. Please describe the structure of the New Bonds if refinanced as taxable bonds.**

20 A. In the event the New Bonds are issued as taxable debt, they would be issued in the form
21 of new FMBs, pursuant to the terms and conditions of PSNH's First Mortgage Indenture,
22 as may be amended from time to time [see Attachment 7 (current mortgage) and
23 Attachment 7A (amended mortgage, as authorized by the Commission in DE 07-070)].
24 The New Bonds may be sold to institutional investors. The number of series, maturities,
25 financing structure, terms and conditions, amount, redemption provisions and coupon

1 rate of the New Bonds will be determined at the time of issuance depending on market
2 conditions. The maturity date of the New Bonds could extend beyond the current May 1,
3 2021 maturity date of the Series D Bonds and Series E Bonds, for a term of up to 40
4 years. As noted above, the Series D Bonds and Series E Bonds would be refinanced
5 only at a rate that would result in a positive NPV savings over the remaining term of the
6 existing bonds.

7
8 **Q. Please describe the estimated NPV savings if PSNH were to issue New Bonds in**
9 **the tax-exempt market.**

10 A. Although it is currently more economic for PSNH to issue taxable debt as noted above, if
11 the Company were to consider issuing tax-exempt debt, based on recent rate
12 indications, PSNH could issue the New Bonds with a term through the May 1, 2021
13 maturity of the Series D Bonds and Series E Bonds at a tax-exempt coupon rate of
14 approximately 4.75%; resulting in cumulative NPV savings of approximately \$8,747,000
15 (comprised of \$5,526,000 for the Series D Bonds and \$3,211,000 for the Series E
16 Bonds) [see Exhibit 2, Pages 1 through 4 for estimated NPV cost calculations].

17
18 If the New Bonds are issued as tax-exempt bonds, PSNH would be unable to extend the
19 term of the New Bonds beyond the current maturity date of the Series D Bonds and
20 Series E Bonds of May 1, 2021. Since 1986, the Internal Revenue Code has not
21 permitted pollution control facilities such as those financed with the Series D Bonds and
22 Series E Bonds to be financed with tax-exempt debt. However, transactions entered
23 into before this change to the Internal Revenue Code are grandfathered and can be
24 refinanced, but only through the existing maturity date of the original qualified
25 transaction and at the current outstanding principal amount.

1 The Company would only execute the refinancing of the Series D Bonds and Series E
2 Bonds with tax-exempt debt if the transactions would result in positive NPV savings for
3 customers over the remaining term of the existing bonds. Positive NPV savings would
4 be achieved if PSNH refinanced the Series D Bonds and the Series E Bonds, as tax-
5 exempt debt and through their current May 1, 2021 maturity, at less than the break-even
6 coupon rates of approximately 5.63% and 5.61%, respectively.

7
8 **Q. Please describe the structure of the New Bonds if refinanced as tax-exempt**
9 **bonds.**

10 A. In the event the New Bonds are issued as tax-exempt bonds, they would be issued and
11 sold by the New Hampshire Business Finance Authority ("BFA"), subject to the approval
12 of the BFA, the Governor and the Executive Council. The New Bonds would be issued
13 by the BFA under one or more loan and trust agreements (collectively, the "New Tax-
14 Exempt Bond Indenture") entered into by the BFA, PSNH and the Trustee. All
15 payments of principal, premium, if any, and interest on the New Bonds would be limited
16 obligations of the BFA and would be payable solely from payments made by the
17 Company. The New Bonds would not be general obligations of the State of New
18 Hampshire, and neither the general credit nor the taxing power of the State of New
19 Hampshire or any subdivision thereof, including the BFA, would secure the payment of
20 any obligation under the New Tax-Exempt Bond Indenture. Interest on the New Bonds
21 would be exempt from current federal income tax (subject to certain exceptions for the
22 Alternative Minimum Tax), and from certain state taxes. The New Bonds may be sold to
23 institutional investors. The number of series, maturities, financing structure, terms and
24 conditions, amount, redemption provisions and coupon rate of the New Bonds will be
25 determined at the time of issuance depending on market conditions.

1 The New Tax-Exempt Bond Indenture would provide for the following transactions: (i)
2 the BFA's issue of the new tax-exempt bonds, (ii) the BFA's loan of the proceeds of the
3 new tax-exempt bonds to PSNH for the purpose of redeeming the Series D Bonds and
4 Series E Bonds (as applicable), (iii) PSNH's repayment of the loan from the BFA
5 through payment to the Trustee of all amounts due with respect to the New Bonds, and
6 (iv) the BFA's assignment to the Trustee in trust for the benefit and security of the
7 bondholders all of the BFA's rights, including repayment of the loan to be received from
8 the Company.

9
10 **Q. Is state tax-exempt volume cap required for the refinancing of the Series D Bonds**
11 **and Series E Bonds?**

12 A. No. Since the New Bonds will be refunding bonds and because PSNH is not seeking to
13 extend the maturity of the Series D Bonds and Series E Bonds if issued as tax-exempt
14 debt (due to the Internal Revenue Code limitation previously discussed), the New Bonds
15 do not require use of the New Hampshire state tax-exempt volume cap.

16
17 **Q. Is PSNH seeking flexibility to issue the New Bonds in principal amounts that are**
18 **greater than the principal amounts of the Series D Bonds and Series E Bonds**
19 **currently outstanding?**

20 A. Yes. If the New Bonds are issued in the taxable market, PSNH requests flexibility to
21 increase the principal amount of the New Bonds to fund the call premiums associated
22 with the Series D Bonds and Series E Bonds and to pay expected issuance costs.
23 However, if the New Bonds are issued in the tax-exempt market, PSNH will be unable to
24 increase the principal amount of the tax-exempt bonds due to changes in the Internal
25 Revenue Code effective since 1986 as discussed above.

1 **Q. Please describe the use of proceeds of the New Bonds that PSNH seeks to issue.**

2 A. If the New Bonds are issued in the taxable market, the proceeds from issuing the New
3 Bonds, up to \$123,000,000 in aggregate principal amount would be used to refinance
4 the Series D Bonds and Series E Bonds, pay any required call premiums and pay
5 expected issuance expenses. However, if the New Bonds are issued in the tax-exempt
6 market, the proceeds from issuing the New Bonds, totaling \$119,800,000 in aggregate
7 principal amount would be used to refinance the Series D Bonds and Series E Bonds
8 and PSNH would fund call premiums and issuance expenses from its general funds.

9

10 **Q. Is the Company seeking authority from the Commission to amortize the remaining**
11 **previously incurred issuance fees, and the call premiums after refinancing the**
12 **Series D Bonds and Series E Bonds?**

13 A. Yes. Should it be economic to issue New Bonds to refinance the Series D Bonds and
14 Series E Bonds, then PSNH requests that, as described in *Paragraph C(3) of General*
15 *Instruction 17 of the FERC Uniform System of Accounts: Reacquisition, upon refunding,*
16 *to equitably spread any unamortized previously incurred issuance fees, and the call*
17 *premiums over the term of the New Bonds.*

18

19 **Q. Over what time period is PSNH seeking the authority to issue New Bonds to**
20 **refinance the Series D Bonds and Series E Bonds?**

21 A. As shown above, the indicative coupon rates to refinance under either the tax-exempt or
22 the taxable alternative are lower than the respective break-even rates. As such, it is
23 currently economic to refinance the Series D Bonds and Series E Bonds. Of course, if
24 interest rates decrease further, additional NPV savings could be achieved and
25 alternatively, if interest rates increase, any NPV savings could be reduced or eliminated.

1 To preserve flexibility in order to best respond to changing market conditions, PSNH is
2 requesting the authority to issue New Bonds to refinance the Series D Bonds and Series
3 E Bonds at any time through December 31, 2012.

4
5 **IV. DESCRIPTION OF THE \$89,250,000 2001 TAX-EXEMPT SERIES A BONDS, AND**
6 **PROPOSED ISSUANCE OF NEW SERIES A BONDS**

7 **Q. Please describe the Series A Bonds that PSNH is seeking authorization to**
8 **potentially refinance with proceeds from the issuance of New Series A Bonds?**

9 A. Pursuant to Order No. 23,841, issued by the Commission on November 9, 2001, in
10 Docket No. DE 01-168 (the "2001 Order"), PSNH issued the tax-exempt Series A Bonds
11 in an auction rate mode of interest on December 19, 2001, with a maturity date of May
12 1, 2021 and secured by FMBs. The proceeds of the Series A Bonds were used to retire
13 tax-exempt bonds which were issued to finance PSNH's share of expenditures related to
14 the construction of certain pollution control, sewage and solid waste disposal facilities
15 required for the operation of the Seabrook nuclear generating plant, Unit 1. At the time
16 of original issuance, PSNH owned an undivided 35.6% interest in the Seabrook plant,
17 but transferred its interest to North Atlantic Energy Corporation ("NAEC") in 1992, and
18 NAEC subsequently sold its interest in Seabrook to FPL Energy Seabrook, LLC in 2002.

19
20 **Q. Why is PSNH seeking authorization to potentially refinance the tax-exempt Series**
21 **A Bonds?**

22 A. The interest rate on the Series A Bonds is determined through an auction process
23 administered by The Bank of New York Mellon that occurs every 35 days. Currently,
24 there is not enough demand for the Series A Bonds to offset the amount that existing
25 investors want to sell. This results in a "failed auction" where the interest rate is then set

1 at the Non-Financial Commercial Paper rate and adjusted according to the current credit
2 ratings on the bonds. The interest rate on these bonds under the failed auction process
3 is set to 200% of the Non-Financial Commercial Paper rate. As of November 9, 2010,
4 the interest rate on the Series A Bonds was 0.40%, which is extremely favorable to
5 customers. However, this rate is forecasted to significantly increase as general
6 economic conditions improve. By Q4 2012, the interest rate on the Series A Bonds is
7 forecasted to reach approximately 6.0% (Source: Global Insights, November 2010).
8 Current indications are that the Series A Bonds could be fixed to maturity today at a tax-
9 exempt coupon rate of 4.75% or a taxable coupon rate of 3.62%. PSNH plans to
10 monitor these rates and will consider remarketing or refinancing the Series A Bonds
11 once the interest rate on the bonds begins to increase and is forecasted to continue to
12 increase. Any remarketing or refinancing of the Series A Bonds would only be
13 undertaken if it was anticipated that PSNH could save interest costs over the remaining
14 term of the Series A Bonds as a result of such remarketing or refinancing.

15
16 **Q. What is the difference between a remarketing and a refinancing of the Series A**
17 **Bonds?**

18 A. Under the terms of the 2001 Order, PSNH is authorized "...to take all actions necessary
19 for and in connection with the issuance of such bonds and conversion of the bonds to
20 other modes in accordance with the loan documentation". As a result, conversion and
21 remarketing of the Series A Bonds does not require additional NHPUC approval. During
22 a remarketing, the mode of interest for the Series A Bonds would be converted from the
23 current auction rate mode to either the flexible mode, daily mode, weekly mode, term
24 rate mode or fixed rate mode, pursuant to the terms of the existing Series A Loan and
25 Trust Agreement dated as of October 1, 2001 between PSNH, the BFA and State Street

1 Bank and Trust Company. All bonds would be subject to mandatory tender at par in
 2 connection with the change in mode, and would be remarketed in the new mode and
 3 available for sale to existing and new buyers (if and as applicable). In connection with a
 4 remarketing, most terms and conditions of the Series A Bonds, including tax status,
 5 would remain unchanged. Should it be more economic for PSNH to issue a new series
 6 of bonds in the taxable bond market, PSNH would undertake a refinancing whereby the
 7 Series A Bonds would be repaid at par at the end of an auction rate period and a new
 8 series of bonds would be issued in the taxable bond market.

9
 10 **Q. Does PSNH require approval by the Commission to refinance the Series A Bonds**
 11 **by issuing taxable debt?**

12 A. Yes. PSNH requires approval by the Commission to refinance the Series A Bonds with
 13 taxable debt because this requires the issuance of new securities.

14
 15 **Q. What is the current indicative pricing for a tax-exempt remarketing or a taxable**
 16 **refinancing of the Series A Bonds?**

17 A. The table below summarizes the current indicative tax-exempt and taxable pricing for
 18 the Series A Bonds based on current pricing information.

	Indicative Pricing Thru Scheduled 2021 Maturity		30-Year Tenor
	Tax-exempt Debt	Taxable Debt	Taxable Debt
Series A	4.75%	3.65%	5.30%

19 Source: tax-exempt pricing from Morgan Stanley as of 10/28/2010 and taxable pricing
 20 from Barclays Capital as of 10/28/2010, each for institutional debt.
 21

1 **Q. What are the estimated issuance fees PSNH would incur for a tax-exempt**
2 **remarketing or a taxable refinancing of the Series A Bonds?**

3 A. The following table lists the expected issuance fees associated with a tax-exempt
4 remarketing or a taxable refinancing of the Series A Bonds in today's market
5 environment.

Fee	Series A Bonds	
	Tax-Exempt Debt	Taxable Debt
Underwriting Fees ¹	\$602,438	\$580,125
External Auditor ²	\$35,000	\$35,000
Rating Agencies ³	\$106,950	\$178,200
Legal ⁴	\$185,000	\$30,000
Miscellaneous ⁵	\$10,000	\$16,000
Total	\$939,388	\$839,325

- 6
- 7 1. 0.675% of issuance amount for 10-year tax-exempt debt and 0.65% of issuance
8 amount for 10-year taxable debt.
9 2. Deloitte & Touche LLP.
10 3. Higher fees are charged by the rating agencies for taxable issuances.
11 4. Legal fees for tax-exempt debt include fees for BFA's counsel and other issuance
12 counsel, not required for taxable debt.
13 5. Miscellaneous includes fees for registering the proposed debt with the Securities and
14 Exchange Commission (taxable debt only), printing, annual administrative trustee fees
15 and miscellaneous underwriter expenses.
16

17 **Q. Please describe the New Series A Bonds that PSNH is requesting authorization to**
18 **issue.**

19 A. In the event the Series A Bonds are refinanced through the issuance of secured taxable
20 bonds, the New Series A Bonds would be issued in the form of FMBs, pursuant to the
21 terms and conditions of PSNH's First Mortgage Indenture, as may be amended from
22 time to time [see Attachment 7 (current mortgage) and Attachment 7A (amended
23 mortgage, as authorized by the Commission in DE 07-070)]. The New Series A Bonds
24 may be sold to institutional investors. The number of series, maturities, financing
25 structure, terms and conditions, amount, and coupon rate of the New Series A Bonds

1 will be determined at the time of issuance depending on market conditions. The
2 maturity date of the New Series A Bonds could be extended beyond the current May 1,
3 2021 maturity date of the Series A Bonds, for a term of up to 40 years.
4

5 **Q. Why is PSNH requesting the flexibility to refinance the tax-exempt Series A Bonds**
6 **by issuing taxable debt?**

7 A. The Company requests the flexibility to refinance the Series A Bonds by issuing taxable
8 debt so it has the ability to choose whether taxable or tax-exempt debt is more economic
9 at the time of refinancing. Based on recent discussions with our investment banks, it is
10 currently more economic to refinance the Series A Bonds with taxable debt than to
11 remarket them as tax-exempt debt. The fact that the interest on the Series A Bonds is
12 subject to the Alternative Minimum Tax, coupled with investors' current preference for
13 longer maturity tax-exempt debt (greater than 15 years), has resulted in tax-exempt debt
14 pricing that exceeds taxable debt pricing for the Series A Bonds, which mature in about
15 ten years. Therefore, PSNH requests the flexibility to refinance the Series A Bonds with
16 the issuance of taxable debt if it is most economic.
17

18 **Q. How will PSNH evaluate when to remarket or refinance the Series A Bonds?**

19 A. As previously noted, PSNH plans to continue to take advantage of the current favorable
20 interest rates set for the Series A Bonds through the failed auction process. However,
21 PSNH plans to monitor these rates and will consider remarketing or refinancing the
22 Series A Bonds once the interest rate on the bonds begins to increase and is forecasted
23 to continue to increase.

1 **Q. Is PSNH seeking flexibility to issue the New Series A Bonds in a principal amount**
2 **that is greater than the principal amount of the Series A Bonds currently**
3 **outstanding?**

4 A. Yes. If the New Series A Bonds are issued in the taxable market, PSNH requests
5 flexibility to increase the principal amount of the New Series A Bonds to pay expected
6 issuance costs. However, if the New Series A Bonds are remarketed in the tax-exempt
7 market, PSNH will be unable to increase the principal amount of the tax-exempt bonds
8 due to changes in the Internal Revenue Code as previously discussed.

9

10 **Q. Please describe the use of proceeds of the New Series A Bonds that PSNH seeks**
11 **authority to issue.**

12 A. If the Series A Bonds are refinanced in the taxable market with the issuance of New
13 Series A Bonds, the proceeds from issuing the New Series A Bonds, totaling up to
14 \$91,000,000 in aggregate principal amount, would be used for the purpose of
15 refinancing the Series A Bonds, and paying related issuance expenses.

16

17 **Q. Is the Company seeking authority by the Commission to amortize the remaining**
18 **previously incurred issuance fees of the Series A Bonds if they are remarketed or**
19 **refinanced?**

20 A. Yes. Should it be economic to remarket or refinance the Series A Bonds, then PSNH
21 requests, as described in *Paragraph C(3) of General Instruction 17 of the FERC Uniform*
22 *System of Accounts: Reacquisition, with refunding*, authority to equitably spread any
23 unamortized previously incurred issuance fees over the term of the New Series A
24 Bonds.

25

1 **Q. Over what time period is PSNH seeking the authority to remarket or refinance the**
2 **Series A Bonds?**

3 A. To preserve flexibility in order to best respond to changing market conditions, PSNH is
4 requesting the ability to remarket or refinance the Series A Bonds, at any time through
5 the existing May 2021 maturity of these bonds.
6

7 **V. MORTGAGING OF PROPERTY**

8 **Q. Why is PSNH requesting authorization to mortgage its property?**

9 A. PSNH is requesting authorization to issue additional first mortgage bonds and mortgage
10 its property in connection with the issuance of secured New Bonds and secured New
11 Series A Bonds as described herein.
12

13 **VI. TERMINATION OF THE MBIA INSURANCE POLICY ON THE SERIES A BONDS**

14 **Q. Please describe the MBIA insurance policy that was put in place for the Series A**
15 **Bonds.**

16 A. At the time of issuance, to assure marketability of the Series A Bonds, an insurance
17 policy was added to improve the credit ratings on the bonds from BBB+, A3 and BBB to
18 AAA, Aaa and AAA status as assigned by the three major rating agencies (Standard &
19 Poor's, Moody's Investor Service and Fitch Ratings). MBIA, the issuer of the insurance
20 policy, unconditionally and irrevocably guaranteed the full and complete principal and
21 interest payment required to be paid by PSNH to the Paying Agent (currently U.S. Bank)
22 in the event that PSNH was not able to pay that scheduled amount. The improved credit
23 ratings lowered the cost of borrowing to PSNH.

1 **Q. Why is the Company requesting authority to terminate the MBIA insurance policy**
2 **on the Series A Bonds?**

3 A. Over the past two years, the tax-exempt bond market has experienced tremendous
4 volatility in the wake of the challenges faced by bond insurers like MBIA, which have
5 seen impairments in their capital strength and credit ratings. On February 18, 2009,
6 MBIA ceded all of its U.S. public finance business to its wholly owned subsidiary
7 National Public Finance Guarantee Corporation (“NPFGC”), (collectively “MBIA”).
8 NPFGC is currently rated “A” by S&P and “Baa1” by Moody’s. NPFGC’s current credit
9 ratings are significantly weaker than the AAA/Aaa ratings MBIA was assigned at the
10 time the insurance policy was added. It is not possible to predict if NPFGC’s ratings will
11 improve in the future.

12
13 NPFGC’s current A/Baa1 ratings have resulted in some investors “looking through” the
14 policy to the ratings on the underlying debt (for example, PSNH’s debt ratings) to price
15 the bonds. In some cases, investors are unwilling to buy any debt security that has
16 bond insurance attached. This market development has resulted in some instances
17 where insured debt has priced at higher yields than uninsured debt.

18
19 PSNH has previously received pricing indications to remarket the Series A Bonds that
20 reflected higher coupon rates with MBIA insurance than without it. Although under
21 current market conditions there is no discernable difference between a bond with MBIA
22 insurance and a bond without it, the Company is concerned about the future
23 marketability of an insured bond given the ongoing issues and potential further
24 downgrades faced by NPFGC. PSNH therefore requests authorization to terminate the
25 MBIA insurance policy, if in conjunction with a remarketing of the Series A Bonds, PSNH

1 determines that such termination could improve the marketability and/or the rate that is
2 obtained through a change in interest mode. It should be noted that PSNH may have to
3 negotiate a settlement with the bond insurer, MBIA, in order to terminate the policy that
4 currently insures the Series A Bonds. This is because the Company can only terminate
5 the MBIA insurance policy if the Series A Bonds are retired through a refinancing.
6 Otherwise, as long as the Series A Bonds are outstanding, the Company must continue
7 to pay an annual premium to MBIA.

8
9 **Q. Why is PSNH only requesting authority to terminate the MBIA insurance policy in**
10 **the case of remarketing the Series A Bonds versus a refinancing?**

11 A. As previously discussed, under a refinancing scenario, a new series of bonds is issued
12 that would establish new terms and conditions; whereas under a remarketing scenario,
13 the interest rate mode on the Series A Bonds is changed from the current auction rate
14 mode to either the flexible mode, daily mode, weekly mode, term rate mode or fixed rate
15 mode, pursuant to the terms of the existing Series A Loan and Trust Agreement. The
16 MBIA insurance policy remains in effect so long as the tax-exempt bonds remain
17 outstanding and would terminate only if such bonds no longer exist (due to a refinancing
18 with new taxable bonds). Therefore, PSNH's contractual obligation to make future
19 annual policy payments to MBIA is contingent on whether or not the Series A Bonds
20 continue to remain outstanding.

21
22 **Q. Will PSNH incur any costs associated with a termination of the MBIA insurance**
23 **policy?**

24 A. At this time, PSNH is not aware if there would be any specific fees associated with a
25 termination of the MBIA insurance policy. However, if market conditions favor

1 remarketing the Series A Bonds without the MBIA policy, the Company will need to
2 notify MBIA of the proposed termination and determine any terms and conditions
3 associated with policy termination. Currently PSNH pays \$112,000 per year for the
4 MBIA insurance on the Series A Bonds. On a nominal basis over the remaining term of
5 the Series A Bonds this equals \$1,120,000 in insurance costs.

6
7 **Q. How will PSNH determine if it is appropriate to terminate the MBIA insurance**
8 **policy?**

9 A. Should termination fees be required, the Company will only remove the insurance policy
10 if removal would improve the marketability of the bonds and/or if the interest savings
11 achieved in a remarketing of the Series A Bonds outweigh the costs of termination of
12 the insurance policy. The interest savings achieved would be reflected in the difference
13 between the coupon rate required by investors of an insured bond compared to the
14 coupon rate required by investors of an uninsured bond. As previously noted, in some
15 cases, investors have been unwilling to buy any debt security that has bond insurance
16 attached. This market development has resulted in some instances where insured debt
17 has priced at higher yields than uninsured debt.

18
19 **Q. Is PSNH seeking authority by the Commission to amortize the termination fee, if**
20 **applicable, for the MBIA insurance policy after remarketing the Series A Bonds?**

21 A. Yes. Should it be costlier to remarket debt containing an insurance policy, and/or if
22 removal of the policy would improve the marketability of the Series A Bonds, then PSNH
23 requests that any fees associated with removing the policy be amortized over the
24 remaining term of the Series A Bonds.

1 **Q. Over what time period is PSNH seeking the ability to remove the MBIA insurance**
2 **policy?**

3 A. To preserve flexibility in order to best respond to changing market conditions, PSNH is
4 requesting the ability to remove the MBIA insurance policy, in conjunction with a
5 remarketing of the Series A Bonds, at any time through the existing May 2021 maturity
6 of these bonds.

7

8 **VII. EXECUTION OF INTEREST RATE TRANSACTIONS**

9 **Q. Please describe PSNH's request for approval to use Interest Rate Transactions to**
10 **manage the interest rate risk associated with the proposed issuance of New**
11 **Bonds and New Series A Bonds in the taxable bond market.**

12 A. PSNH is seeking authority to enter into one or more Interest Rate Transactions to
13 manage interest rate risk associated with the proposed issuance of New Bonds and new
14 Series A Bonds.

15

16 **Q. Why is PSNH not seeking authority to enter into Interest Rate Transactions if the**
17 **New Bonds or the New Series A Bonds are issued in the tax-exempt market?**

18 A. The Municipal Market Data (MMD) Index serves as the benchmark index for pricing
19 bonds in the tax-exempt market. Currently, there are no instruments available that can
20 hedge the MMD Index.

21

22 **Q. Has the Commission previously allowed PSNH's use of Interest Rate**
23 **Transactions?**

24 A. Yes. Order No. 25,021 issued October 5, 2009, in Docket No. DE 09-033, authorized
25 PSNH to utilize Interest Rate Transactions in connection with a \$150 million debt

1 issuance approved concurrently. In addition, Order No. 24,781 issued August 3, 2007,
2 in Docket No. DE 07-070, authorized PSNH to utilize Interest Rate Transactions in
3 connection with a \$200 million debt issuance approved concurrently.

4
5 **Q. What type of instruments could PSNH use to mitigate interest rate risk?**

6 A. PSNH will consider the use of a Treasury Rate Lock or Forward-starting Swap, which
7 are commonly used in the capital markets to mitigate interest rate risk.

8
9 **Q. How would PSNH use Interest Rate Transactions in anticipation of a planned
10 refinancing?**

11 A. There are several instruments that can be used to lock in the interest rate of a planned
12 refinancing. One example is a Treasury Rate Lock, which would be used to hedge
13 against potential increases in the applicable U.S. Treasury rate portion of the coupon
14 rate. By locking in the U.S. Treasury rate in advance of the planned transaction, PSNH
15 may eliminate or reduce the risk associated with a rising interest rate environment
16 depending on the percentage of the principal amount of debt that is hedged.
17 Conversely, if actual U.S. Treasury rates were to fall after PSNH entered into the
18 Treasury Rate Lock, the Company would benefit from the interest rate certainty provided
19 by the Treasury Rate Lock and the Company's effective interest rate on the hedged
20 portion of the debt would reflect the higher locked-in rate.

21
22 PSNH could also use a Forward-starting Swap, which functions substantially like a
23 Treasury Rate Lock, except that the Forward-starting Swap is based on expected
24 changes in the U.S. LIBOR swap market instead of the U.S. Treasury market, and
25 mitigates a portion of an issuer's credit spread risk in addition to underlying Treasury

1 rate risk. Like a Treasury Rate Lock, at execution, a rate (in this case the LIBOR swap
2 rate vs. the Treasury rate) is locked in advance of the anticipated transaction. LIBOR
3 swap rates are often quoted relative to the applicable U.S. Treasury benchmark (i.e., a
4 30-year LIBOR swap rate would be quoted relative to a 30-year U.S. Treasury) and
5 would therefore capture the U.S. Treasury component of the coupon rate that PSNH
6 realizes, plus a spread that would mitigate a portion of the credit spread component of
7 the Company's coupon.

8
9 **Q. Please provide a hypothetical example of a Treasury Rate Lock.**

10 A. Using \$100 million of Long-term Debt as an example, if PSNH were able to issue such
11 debt at a coupon rate of 6% based on an underlying U.S. Treasury rate of 5% at the
12 time of pricing plus 100 basis points, but had previously entered into a Treasury Rate
13 Lock that effectively locked in a U.S. Treasury rate of 4.89%, the cost of debt would be
14 reduced by \$110,000 per year $[(5.00\% - 4.89\%) \times \$100 \text{ million}]$ for the term of the debt.
15 The Company would receive a payment from the hedge counterparty at or close to
16 issuance in an amount equal to the present value of these annual savings. This
17 payment would then be amortized to interest expense over the term of the debt.
18 Similarly, if PSNH had previously locked in a U.S. Treasury rate of 5.11%, and then
19 priced based upon the 5% U.S. Treasury rate, the cost of debt would be effectively
20 increased by the same amount, and the Company would make a payment to the hedge
21 counterparty at issuance in an amount equal to the present value of these annual costs.
22 This payment would also be amortized to interest expense over the term of the debt.

1 **Q. Please provide a hypothetical example of a Forward-starting Swap.**

2 A. Using the preceding hypothetical Treasury Rate Lock example, if PSNH entered into a
3 Forward-starting Swap that effectively locked in a U.S. Dollar swap rate of 5.39% and
4 the U.S. Dollar swap rate increased to 5.50% at the time of pricing, the cost of debt
5 would be reduced by \$110,000 per year $[(5.50\% - 5.39\%) \times \$100 \text{ million}]$ for the term of
6 the debt. The Company would receive a payment from the hedge counterparty at
7 issuance in an amount equal to the present value of these annual savings. This
8 payment would then be amortized to interest expense over the term of the debt.
9 Similarly, if PSNH had previously locked in a U.S. Dollar swap rate of 5.61%, and the
10 U.S. Dollar swap rate dropped to 5.50% by the time of pricing, the cost of debt would be
11 effectively increased by the same amount, and the Company would make a payment to
12 the hedge counterparty at issuance in an amount equal to the present value of these
13 annual costs. This payment would also be amortized to interest expense over the term
14 of the debt.

15
16 **Q. What is the cost of a Treasury Rate Lock or Forward-starting Swap?**

17 A. There is no upfront cost to the Company to enter into a Treasury Rate Lock or Forward-
18 starting Swap. However, a transaction fee, which depends upon the length of the period
19 during which the rate will be locked, is added to the locked rate. For example, the fee to
20 lock in the 10-year U.S. Treasury rate or enter into a Forward-starting Swap for three
21 months has historically ranged from approximately 0.05% to 0.20% of the principal
22 amount, and is currently around 0.15%. There are no additional costs or transaction
23 fees that the Company might incur as a result of using a Treasury Rate Lock or
24 Forward-starting Swap.

1 **Q. Does PSNH plan on entering into Interest Rate Transactions related to the**
2 **proposed issuance of New Bonds and New Series A Bonds described in this**
3 **petition?**

4 A. While we have no specific plans at this time, PSNH requests that the Commission grant
5 the Company the flexibility to enter into one or more Treasury Rate Locks or Forward-
6 starting Swaps in connection with the proposed transactions. The ultimate decision will
7 depend on actual market conditions near the time of issuance.

8

9 **Q. Describe the standard by which PSNH will assess whether to enter into an**
10 **Interest Rate Transaction?**

11 A. PSNH may utilize Interest Rate Transactions to manage the risk of volatile interest rates
12 with respect to an anticipated refinancing. In doing so, the Company will closely monitor
13 interest rate trends, volatility and the characteristics of its debt portfolio and will enter
14 into these transactions only at market rates. PSNH will only enter into an approved
15 transaction, as determined by the Company's Interest Rate Risk Management Policies
16 and Procedures, and will comply with all hedge accounting guidelines set forth
17 according to generally accepted accounting principles.

18

19 **Q. Do you believe the issuance of New Bonds and New Series A Bonds to refinance**
20 **the Series D Bonds and Series E Bonds, and the Series A Bonds, respectively, the**
21 **mortgaging of property, the termination of the MBIA insurance policy on the**
22 **Series A Bonds, and the execution of interest rate transactions are in the public**
23 **good?**

24 A. Yes.

1 **Q. When does PSNH need the Commission's authorization for the requested**
2 **issuance of New Bonds and New Series A Bonds to refinance the Series D Bonds**
3 **and Series E Bonds, and the Series A Bonds, respectively, the mortgaging of**
4 **property, the termination of the MBIA insurance policy on the Series A Bonds, and**
5 **the execution of interest rate transactions?**

6 A. As this request is for approval of economic refinancings that will be undertaken only
7 under circumstances that result in positive net present value savings over the remaining
8 term of the existing bonds, PSNH respectfully requests that the Commission either (i)
9 set a date for hearing on this application promptly, or (ii) issue an *Order Nisi* approving
10 the Company's request on or before December 31, 2010. Issuance of an *Order Nisi* or
11 prompt hearing regarding this request will position PSNH to be able to access the
12 capital markets for economic refinancing as early as the first quarter of 2011.

13

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.