STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 6, 2013
AT (OFFICE): NHPUC

FROM: Grant W. Siwinski SEM GWS
Utility Analyst III

SUBJECT: DE 13-156, Petition of Public Service Company of New Hampshire for Approval of Financing Transactions

TO: Debra A. Howland, Executive Director

On May 24, 2013, Public Service Company of New Hampshire (PSNH or Company) filed a petition for approval of certain financing transactions including: 1) the issuance of up to $315 million aggregate principal amount of long-term debt securities through December 31, 2014; 2) the mortgaging of property; and, 3) the refinancing of the $89,250,000 Series B PCRBs through May 1, 2021. PSNH also requested in its petition that the Commission eliminate the current requirement that it file quarterly reports related to its first mortgage indenture. And, finally, PSNH requested a limited waiver of certain filing requirements dictated by N.H. Code Admin. Rules Puc 308.12 in connection with its petition. The Company estimates that the associated rate impact of the financings on its current Energy Service rate would be a decrease of $0.0003 per kilowatt-hour.

As described in its financing petition, the Company's first request was for authorization to issue up to $315 million in aggregate principal amount of long-term debt through December 31, 2014 in the form of, or secured by, first mortgage bonds, or in the form of unsecured notes, in one or more series, to be distributed in the public or private markets with a maturity ranging from one to 30 years. If the debt is in the form of, or secured by, first mortgage bonds PSNH is requesting authority to mortgage its property. According to PSNH, the exact financing structure, terms and conditions, amount, documentation and coupon rate will be determined at the time of issuance depending on market conditions. In order to achieve favorable financing terms, the Company requested flexibility in issuing its long-term debt. PSNH said that the coupon rate for the debt would be consistent with market rates for an instrument of similar maturity and risk, with the condition that it not exceeds 300 basis points, or a floating rate benchmark not to exceed 300 basis points. The Company also stated that the Commission's authorization would allow it to capitalize on favorable market conditions by significantly reducing the lead time in issuing debt.

PSNH testified that the proceeds of the issuance of $315 million in long term debt would be used to: 1) refinance outstanding short-term debt, including the $108,985,000 incurred on May 1, 2013 to redeem certain pollution control revenue bonds; 2) finance the Company's transmission, distribution and generation businesses capital expenditures; 3) pay at maturity a $50,000,000 Series L first mortgage bonds due July 15, 2014; 4) fund general working capital purposes; and 5) pay issuance costs. The Company attested that its capitalization would not be adversely affected by the planned issuance of long term debt.

Next, PSNH stated that in Order No. 24,781 (August 3, 2007), the Commission required it to provide quarterly reports showing its total debt-to-net plant ratio, interest coverage and supporting data related to its original first mortgage indenture as a condition to the financing. On June 1, 2011, PSNH obtained the consent of a majority in principal amount of all bonds then outstanding under the Original Indenture; and an Amended Indenture became effective. With the Amended Indenture now in effect, the interest coverage ratio under the Original Indenture is no longer applicable. Because the interest coverage ratio information related to the original indenture is no longer applicable, the Company requested that the Commission end the reporting requirements approved in Order No. 24,781.

PSNH also requested a limited waiver of certain filing requirements contained in Puc 308.12. The Company said that, pursuant to Puc 308.12, utilities must file a Form F-4 with the Commission when requesting authority to issue securities. As part of that filing, Puc 308.12(c) (8) requires that utilities provide a draft loan and trust agreement relating to the proposed potential issuance of tax-exempt debt. PSNH said that a draft of the loan and trust agreement associated with the issuance of tax-exempt debt, should that option be utilized, is not currently available. In lieu of providing a draft agreement, PSNH supplied with its filing a copy of the loan and trust agreement for the most recent tax-exempt financing, the terms of which will be substantially similar to the document PSNH describes in its petition. The Commission granted the Company's limited waiver at hearing on August 6, 2013.

Finally, the Company requested authorization to refinance the Series B PCRBs, which is currently economic to refinance. PSNH stated that based on current conditions, the estimated after-tax NPV savings from refinancing at the current taxable interest rate of 2.16 percent is approximately $8.3 million, after taking into account lower interest expense, the call premium, non-payment of bond insurance fees and additional issuance costs. The current 8-year indicative taxable rate of 2.16 percent is lower than the current indicative 8-year tax-exempt rate of 2.25 percent. In addition, up-front costs associated with a taxable issuance are generally lower than those for a tax-exempt issuance. PSNH requests the flexibility to refinance the Series B PCRBs with the issuance of the New Bonds as either tax-exempt or taxable debt depending on which market provides the most favorable pricing at the time of refinancing. The Company will choose the market that yields the lowest effective cost. The effective cost would incorporate the yield as well as issuance expenses.

Analysis

Staff has reviewed the filing, issued data requests and met with the Company. Based on the information gathered and analyzed, Staff concurs with PSNH that flexibility in issuing its long-term debt will significantly reduce the lead time in issuing that debt, thereby increasing the success of favorable terms for financing structure, terms and conditions, amount, documentation and coupon rate. Staff also believes the flexible parameters outlined by the Company are reasonable for the following reasons: 1) the Company's debt ratio will not be adversely affected by the new long term debt, remaining at its current level of about 49 percent, because about $160 million of the new debt is for refinancing current debt and because NU Parent expects to continue to make capital contributions, as necessary; 2) the coupon rate will be consistent with market rates for an instrument of similar maturity and risk, with the condition that the credit spread not exceed 300 basis points, which is a reasonable spread given the requested issuance period is through December 31, 2014, and given the recent credit spread for PSNH and its affiliate[1] has been in the range of 70 to 250 basis points in their last five financings over a 4-year period; 3) it is estimated that the associated rate impact of the financings on its current Energy Service rate would be a decrease of $0.0003 per kilowatt-hour; and, 4) the proceeds from the debt will be appropriately used to finance capital expenditures, to reduce short term debt, to refinance current debt, and to increase working capital.

Finally, Staff concurs with PSNH that flexibility in refinancing the Series B PCRBs with the issuance of the New Bonds as either tax-exempt or taxable debt depending on which market provides the most favorable pricing at the time of refinancing will significantly increase the success of the refinancing. However, Staff believes the refinancing should not be executed unless NPV savings are achievable based on reasonable interest rate conditions.

Recommendation

Regarding PSNH's request to be accorded flexibility and timeliness in issuing $315 million in long-term debt, mortgaging its property and in refinancing its $89,250,000 Series B PCRBs through May 1, 2021, such that it can quickly capitalize on favorable market conditions, Staff recommends that the Commission approve the request and all actions necessary to consummate any such issuances, with the limitation on the Series B that the refinancing should not be executed unless NPV savings are achievable based on reasonable interest rate conditions.

Regarding PSNH's request to end the reporting requirements in Order No. 24,781, because the interest coverage ratio information related to the original indenture is no longer applicable; Staff agrees with the Company and recommends that the Commission end the reporting requirements. Finally, the Staff recommends that the Commission issue an Order Nisi granting the requests in this docket.

PSNH requested an Order by October 1, 2013.

Please let me know if you have any questions.

c: Steve Mullen
Suzanne Amidon

[1] Connecticut Light and Power Company is a similarly rated affiliate.