

STATE OF NEW HAMPSHIRE**Inter-Department Communication****DATE:** October 12, 2016**AT (OFFICE):** NHPUC
FROM: David Goyette, Utility Analyst III**SUBJECT:** DE 16-813 New Hampshire Transmission, LLC
Petition for Approval of Financing**TO:** Commission
Debra Howland, Executive Director

On September 2, 2016, New Hampshire Transmission, LLC (NHT), filed a petition for Approval of Financing pursuant to RSA 369:1, accompanied by testimony and supporting documents. On October 11, 2016, NHT filed additional information to supplement its filing. NHT operates and owns 88.23% of the transmission substation located on the grounds of the Seabrook nuclear power plant (Seabrook Substation).

Background and History

In its petition, NHT provided some background regarding its current request. What follows here is a brief history based on my review of Seabrook Substation-related dockets since 2003.

In DE 03-186, the Commission determined that as a majority owner of the Seabrook Substation, Florida Power & Light Company (FP&L) would be subject to limited regulation as a public utility (Order 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 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 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 (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 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 million¹, 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 25,556, July 30, 2013).

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. Staff found that, except for a discussion in the testimony of the current request regarding "slightly" amending the existing line of credit agreement (Amended Loan Facility), both the petition and testimony in the current request are nearly the same as those in the request in DE 13-138.

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

- (a) An extension of the availability period for New Loans. In its 2013 request, NHT stated that New Loans could only be issued on or before July 30, 2015. In its current request, NHT is requesting to extend that period, from May 31, 2016 to May 31, 2018.
- (b) Modification to the method used to determine the interest rate on New Loans. Note that the interest rate on a New Loan is based on the rate of a U.S. Treasury bond, with a term most closely approximating that of the New Loan, plus an additional margin. Under the New Loan Agreement approved in 2013, the source for the U.S. Treasury bond rate is a reasonably accepted method on the prior business day and the source for the additional margin is a quote from a group of financial institutions. NHT is requesting to change the source for the U.S. Treasury bond rate to the rate published in the Wall Street Journal on the prior business day and the additional margin will be fixed at 232 basis points (2.32%).

Based on Staff's review of the loan amendment document, the First Amendment to Amended and Restated Loan Agreement, except for the change to the basis for the

¹ In its filing in DE 13-138, NHT stated it had drawn down its long-term debt obligation to \$16 million.

applicable interest rate, all other terms and conditions of the original loan agreement are substantially the same.

NHT noted in its petition 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 \$16.1 million obligation to NextEra Capital in order to finance upgrades at Seabrook Substation. NHT added that, because of its strategic 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 Analysis and Recommendation

As noted in its recommendations regarding NHT's prior financing request, in DE 13-138, 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.

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. 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

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
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NHPUC
21 S. FRUIT ST, SUITE 10
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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.