

Record Request

Q: Why do the NH Utilities not support amortization as a mechanism for program funding?

A: The NH Utilities do not support amortizing the cost of energy efficiency programs because such an approach does not lead to the best result for customers. Although amortization would reduce rates in the short run, this approach would lead to higher rates and costs for customers in the long run. This is due to both the added cost of carrying charges that would be applicable as well as the negative implications to company credit metrics, which would negatively impact important financial metrics that allow the utilities to best meet customer needs.

Due to the lag in time between program expenditures and the recovery of those costs through rates, carrying charges would be applicable. These carrying charges would be added to the program costs annually and, if you're to assume that amortization would continue in the future for future program expenditures, these additional annual costs would result in a pancaking effect on rate increases. In other words, the carrying charges would increase annually as the amount of unrecovered program expenditures increases over the period of amortization.

In addition, amortization would result in a very large regulatory asset on the balance sheet. For debt and equity analysts evaluating our balance sheets, that asset would be viewed as a low-quality and undesirable asset that compromises the utility's balance sheet due in part to the currently prevailing legislative landscape. Specifically, the legislation underlying the System Benefit Charge ("SBC") does not support the long-term consistent amortization and recovery of the capitalized amounts beyond 2023. The formulation of the SBC after 2023 is subject to approval by a legislative committee that has no obligation to provide full or timely recovery of the deferred energy efficiency expenses.

From a credit metric perspective, amortization of such significant levels of annual spending would require the utility to finance these expenditures with a combination of debt and equity in order to fund the growing regulatory asset. This increased capitalization and reduction in operating cash flow could weaken the financial condition of the utilities, potentially leading to credit rating downgrades by Moody's and Fitch credit rating agencies.

Significantly, investors in long-term and short-term debt and credit rating agencies use the ratio of cash flow to debt as the primary type of financial metric that drive the credit rating

process. A decrease in a utility's credit rating may result in a loss of access to funding with long-term bonds and loss of access to short-term borrowings during periods of financial market distress, as occurred in 2008-2009 and in early 2020.

Utilities are different from the vast majority of companies in the investor universe in that they are obliged to provide service, including needed capital investments, under all financial market conditions. Thus, when capital markets undergo crises that sharply increase the cost differential between high credit quality and lower credit quality borrowers, utilities must still raise capital to provide services and undertake necessary capital investments. Maintaining a strong credit rating enables the utilities to access capital markets under all conditions at a reasonable cost to provide service to customers and undertake needed capital replacement and improvement to ensure reliability of such service.

Amortization increases cost for customers by adding carrying charges to program costs, which must be paid back over time, and by negatively impacting financial metrics, which would result in higher costs of capital for aspects of the utility business, not isolated to Energy Efficiency. It is not the right funding mechanism for energy efficiency.