STATE OF NEW HAMPSHIRE

Inter-Department Communication

RC

DATE: May 6, 2021
AT (OFFICE): NHPUC

FROM: Jay E. Dudley, Utilities Analyst IV

SUBJECT: DE 21-060 Public Service Company of New Hampshire d/b/a Eversource Energy Petition for Approval of Financing Transaction

TO: Commission
Debra A. Howland, Executive Director

CC: Tom Frantz, Director Electric Division
David Wiesner, Director Legal Division
Brian Buckley, Staff Attorney
D. Maurice Kreis, Office of the Consumer Advocate

On March 18, 2021, Public Service Company of New Hampshire d/b/a Eversource Energy (PSNH or Company), filed a petition for authority to issue long term debt not to exceed an aggregate principal amount of $350 million. PSNH's filing comprised testimony and attachments including information provided by Form F-4 under Rule Puc 308:12(b). Staff recommends that the petition be approved as submitted.

Description of Proposed Financing

PSNH proposes to issue and sell up to $350 million in aggregate principal amount long term debt in the form of first mortgage bonds (the Bonds) during the period from the date of the Commission's order in this docket through December 31, 2021. The Company seeks authority to: (i) refinance PSNH's existing short-term debt balance of $46.3 million (as of December 31, 2020)[1], (ii) refinance existing long-term debt in the amount of $122 million maturing on June 1, 2021,[2] (iii) refinance existing long-term debt in the amount of $160 million maturing on September 1, 2021, and (iv) to fund, in part, approximately $309 million in planned capital expenditures and other working capital needs for 2021. As such, a portion of the request, approximately $328.3 million, does not represent new indebtedness for PSNH since it constitutes the refinancing of existing debt, whereas the remainder of approximately $18.51 million (after deducting $3.19 million in estimated issuance costs) constitutes new debt. The maturity of the Bonds will range from 1 to 30 years. The Company proposes to price the Bonds at a fixed rate based on

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[1] Testimony of Emilie G. O'Neil and Michael J. Dzialo at Bates 11.
[2] *See* Attachment 1, Data Response 1-003.

either the 10-year or 30-year U.S. Treasury rate plus a credit spread not to exceed four hundred basis points (4.00%) to be determined at the time of closing. PSNH anticipates that the ultimate rate for the Bonds will be consistent with current market rates; however, because its financing plan will be effective through December 31, 2020, the Company requests approval of the proposed credit spread of 4.00% in order to provide sufficient flexibility in the event of unanticipated widening of credit spreads due to uncertainty or volatility in the capital markets. The final financing structure, terms and conditions, amounts, documentation, and rate will be determined at the time of issuance.

The Company provided its Form F-4 dated March 31, 2020, along with attachments to show the impact of the proposed financing on PSNH's balance sheet (Attachment 3), income statement (Attachment 4), capitalization (Attachment 5), and cost of debt (Attachment 2). Upon review, Staff concluded that the filing represents a routine filing request. PSNH estimates the cost of the bond issuance to be $3.19 million which includes ratings fees and a projected underwriting fee of 0.65%. PSNH calculates, on a pro forma basis, that the new debt of $18.51 million, plus the refinance of the $46.3 million in short-term debt and the refinance of $282 million in long-term debt, will result in a decrease in annual interest expense of approximately $2.788 million for a total of $55.3 million, as compared with its current total interest expense amount of $58.1 million.[3] The effect of the decrease in interest expense results in a small increase to PSNH's retained earnings of $2.03 million and improves the Company's ratio of FFO (Funds from Operations) to debt from 23.6% to 26%. In addition, despite incurring the new debt of $18.51 million, PSNH projects that after giving effect to the resulting pro forma adjustments, the proposed financing will not have a significant impact on the Company's current capital structure of 42.3% debt and 57.7% equity, resulting in 43.69% debt and 56.31% equity. PSNH represents that it expects to maintain a post-issuance equity ratio of 55% through additional future earnings and capital contributions from Eversource Energy in 2021. Staff also confirmed PSNH's current bond ratings of A+ with Standard and Poor's, A1 with Moody's Investors Service, and A+ with Fitch Ratings.

Staff's Recommendation

Staff has reviewed the Company's petition and supporting documents and believes that PSNH's filing is complete and meets all requirements of Puc 308.12. Accordingly, it is Staff's opinion that, based on the current total of outstanding long term debt reported by PSNH of approximately $1.1 billion, the proposed refinance of existing debt in the amount of $328.3 million (both long-term and short-term), plus new debt of $18.51 million, will have a modest impact on PSNH's capital structure, and the Company's cost of debt and revenue requirement.

[3] PSNH forecasts on a pro forma basis that it may realize some interest savings through the refinance of the maturing higher coupon long-term debt.

As such, Staff supports the Company's position that approval of the petition would be in the public good, and in conformance with the review standards of RSA Chapter 369. Therefore, Staff recommends that the Commission authorize PSNH to issue $350 million in long term debt, according to the proposed terms, amounts, and interest rate outlined above, for the purposes of refinancing its existing short-term and long-term debt, and to include the issuance of new debt to fund planned capital expenditures for 2021. Staff supports the issuance of an Order *Nisi* for the approval of this petition.