

DE 07-025

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Authority to Temporarily Increase Short-Term Debt Limit

Order *Nisi* Approving the Petition

ORDER NO. 24,737

March 30, 2007

I. Introduction

On February 28, 2007 Public Service Company of New Hampshire (PSNH) submitted a Petition for Order *Nisi* Establishing a Short-Term Debt Limit of Ten Percent of Net Fixed Plant and Authorizing a Temporary Increase of Such Short-Term Debt Limit of an Additional Three Percent (Petition). In support of the Petition, PSNH filed supporting testimony of Patricia C. Cosgel, Assistant Treasurer--Finance, of Northeast Utilities (NU).

In its Petition, PSNH requests: (i) an increase in its short-term debt limit to equal 10 percent of its net fixed plant in accordance with New Hampshire Admin. Rule Puc 307.05, to reflect the increase in value of its net fixed plant; and (ii) authority to temporarily increase its short-term debt by an amount not exceeding an additional 3 percent (i.e., a total of 13%) of net fixed plant until December 31, 2007, or until PSNH next issues long-term debt, whichever occurs first. PSNH states that NH RSA 369:7 authorizes the Commission to establish the short-term debt limit for a utility under its jurisdiction by rule or by specific order applicable to a particular utility. PSNH notes that the Commission previously authorized PSNH's short-term debt limit by Order No. 23,841 (November 9, 2001) in Docket No. DE 01-168, *Re Public Service Company of New Hampshire*, 86 NH PUC 756 (2001). In that Order, the Commission established a short-term debt limit for PSNH at \$100 million "to be applicable until further order

of the Commission.” 86 NH PUC 756 at 762. PSNH requests that the Commission issue, not later than April 1, 2007, an order *Nisi* authorizing an increase in PSNH’s short-term debt limit to reflect the increase in value of its net fixed plant. PSNH testifies that, as of December 31, 2006, the value of its net fixed plant was approximately \$1.108 billion,¹ which would result in a short-term debt limit equal to \$110 million. With respect to the request for authority for additional short-term debt, PSNH seeks a rule waiver under N. H. Admin. Rule Puc 201.05 for temporary authority to exceed the 10 percent of net fixed plant short-term debt limit by up to an additional 3 percent of net fixed plant.

In the supporting testimony, PSNH states that the urgency in increasing its short-term debt allowance stems from its financial forecast which predicts that short-term debt will temporarily exceed the existing \$100 million short-term debt authority by approximately \$15 million at the end of May 2007 due to ongoing capital expenditures. PSNH is also forecasting net utility plant to approach \$1.15 billion in May 2007, which would place the requested short-term debt authorization within the 10 percent threshold stipulated by N.H. Admin. Rule Puc 307.05. However, PSNH stated in its filing that the forecasted periods do not account for intra-month peaks that would exceed these numbers, potentially as early as April 2007. In response to informal discovery, PSNH responded that these intra-month peaks result from coincident payment dates for Independent Power Producers (IPPs), coal contracts and other supplier payments. PSNH indicated that it had observed an increase in the severity of these intra-month peaks over the past months. For example, during January 2007, short-term debt increased by \$40 million in two business days and peaked mid-month at \$53 million.

¹ Although PSNH’s petition states that, as of December 31, 2006, its net fixed plant was valued at \$1.175 billion, PSNH filed a letter, on March 29, 2007, stating that the correct value of net fixed plant, for December 31, 2006, is \$1.108 billion.

Based upon PSNH's current net fixed plant, the proposed increase in the short-term debt limit will result in approximately \$110 million to \$144 million of outstanding short-term debt, at 10 percent and 13 percent of net fixed plant, respectively. According to PSNH, this additional flexibility will enable it to expand and upgrade its electric distribution infrastructure. PSNH expects total capital expenditures for 2007 to approach \$211 million, which includes approximately \$91 million in distribution plant additions, \$83 million in the transmission system additions, and \$37 million for generation projects.

PSNH attests that the incremental 3 percent of net fixed plant will also provide additional flexibility and the necessary liquidity in the event that actual requirements differ from those in PSNH's 2007 budget. PSNH points out that this 3 percent cushion is a conservative estimate of what PSNH's intra-month peak financing needs may be, and there is a possibility that unforeseen events, such as a significant storm, may result in PSNH exceeding even this limit. PSNH avers that it will immediately notify the Commission and seek emergency relief if such an event occurs. Finally, PSNH asserts that the flexibility associated with a higher short-term debt limit is less costly for ratepayers than the alternative funding of parent capital contributions.

II. Staff Recommendation

Staff explored the reasons underlying PSNH's request to increase its short-term debt limit on both a temporary and permanent basis. Staff also considered the financial implications were the Commission to approve the request.

In response to Staff discovery, PSNH stated that it prefers to borrow short-term debt from the NU money pool in lieu of the revolving credit facility because it is less expensive. The money pool interest rate is equal to the Federal Funds rate, currently 5.25 percent. The interest expense of borrowing from the revolving credit facility is equal to the 3-month LIBOR rate plus

a credit spread of 37.5 basis points (LIBOR + 0.375 percent). As of March 27, 2007, the rate on the three-month LIBOR was 5.35 percent. Staff states that these rates are not expected to change significantly going forward.

As explained in the Petition, PSNH plans to issue long-term debt later in the year, which would reduce some of the need for short-term debt. Consequently, it is appropriate to reduce PSNH's short-term debt limit at that time to 10 percent of net fixed plant as provided in N. H. Admin. Rule Puc 307.05. Although PSNH's request serves to significantly increase its short-term debt limit, PSNH informed Staff during PSNH's delivery service rate case that it expects to receive from NU an equity infusion in 2007 of \$43 million, or more if its debt-to-equity ratio exceeds its target debt-to-equity ratio.

In summary, given that PSNH is seeking the flexibility to meet peaks in its short-term cash needs in what it represents is the least cost manner, and that PSNH's request is consistent with Commission rules, Staff recommends that the Commission approve PSNH's petition.

III. Commission Analysis

We have reviewed PSNH's request and Staff's recommendation to increase PSNH's short-term debt limit. We recognize that the value of PSNH's net fixed plant has increased to \$1.108 billion, and that N. H. Admin. Rule Puc 307.05 allows electric utilities to incur short-term debt up to 10 percent of the value of their net fixed plant. Therefore, we grant PSNH's request to increase its short-term debt on a permanent basis to 10 percent of its net fixed plant. We also authorize PSNH to temporarily increase its short-term debt limit by an additional 3 percent of the value of net fixed plant to assure that the short-term debt limit is not exceeded in the intra-month peaks. We find that allowing a temporary increase in PSNH short-term debt to cover these intra-month peaks is reasonable and in the public interest. We grant this approval with the

understanding that PSNH will later this year request the Commission to authorize the issuance of long-term debt. At that time, we will investigate the composition of PSNH's long-term capital structure. We also require PSNH to seek immediate relief in the event that it anticipates short-term debt levels exceeding the limits authorized by this Order.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, Public Service Company of New Hampshire's request to increase its short-term debt limit to 10 percent of the value of its net fixed plant on a permanent basis pursuant to RSA 369:7 and N.H. Admin. Rule Puc 307.05, is hereby GRANTED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire's request for a temporary waiver of N.H. Admin. Rule Puc 307.05 to allow Public Service Company of New Hampshire to borrow up to an additional 3 percent of its net fixed plant in excess of the value of 10 percent of net fixed plant is GRANTED until PSNH completes its long-term debt issuance or until December 31, 2007, whichever occurs first; and it is

FURTHER ORDERED, that the Public Service Company of New Hampshire shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than April 9, 2007 and to be documented by affidavit filed with this office on or before April 30, 2007; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than April 16, 2007 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than April 23, 2007; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective April 30, 2007, unless the Public Service Company of New Hampshire fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Public Service Company of New Hampshire shall file with this Commission executed copies of all documents pertaining to this financing no later than 14 days subsequent to the closing of the transaction.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of March, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary