

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 22, 2013

AT (OFFICE): NHPUC

FROM: *SEM*
Steven E. Mullen, Assistant Director – Electric Division

SUBJECT: DE 13-138, New Hampshire Transmission, LLC
Petition for Approval of Financing

Staff Recommendation

TO: Commissioners
Debra A. Howland, Executive Director

On May 8, 2013, New Hampshire Transmission, LLC (NHT) filed, pursuant to RSA 369:1, a Petition for Approval of Financing accompanied by testimony and other supporting documentation. In its petition, NHT referenced prior Commission approvals of financing requests in DE 08-164 and DE 10-062 as well as a settlement agreement in DE 03-186.¹ The prior dockets were filed by Florida Power & Light Company (FPL), the predecessor owner of the transmission substation (Seabrook Substation) located on the grounds of the nuclear power plant located in Seabrook, New Hampshire. In DE 10-042, the Commission approved the transfer of FPL's 88.23% ownership share of the Seabrook Substation to NHT. *See* Order No. 25,105 (May 26, 2010).² As part of that approval, the Commission stated that its prior financing rulings for FPL would be fully applicable to NHT. In those prior financing dockets, NHT received approval to issue a) up to \$36 million of long-term debt to finance certain reliability upgrades at the Seabrook Substation (DE 08-164), and b) to increase the authorized limit of the long-term debt to up to \$63 million (DE 10-062). According to NHT, the outstanding indebtedness of the

¹ In DE 03-186, the 88.23% ownership share in the Seabrook Substation was transferred from FPL Energy Seabrook, LLC (one of the co-owners of the Seabrook Station nuclear plant) to FPL-New England Division (FPL-NED). Among the provisions agreed to by FPL in that settlement was the requirement that "[w]ith respect to any financing of FPL-NED's interest in the Seabrook Substation, including any borrowing or the issuance of any notes, bonds or other indebtedness or securities of any nature, being subject to the provisions of RSA 369 and other applicable regulatory laws of New Hampshire..."

² As explained in the petition, NHT is a wholly-owned subsidiary of NextEra Energy Transmission, LLC, which is a wholly-owned subsidiary of NextEra Energy Infrastructure, LLC, which is a wholly-owned subsidiary of NextEra Energy Capital Holdings, Inc. (NextEra Capital), which is a wholly-owned subsidiary of NextEra Energy, Inc. In May 2010, the shareholders of FPL Group Capital, Inc. voted to change the name of the company of NextEra Energy, Inc. The prior dockets referenced in the text of this memorandum contain references to the names of the companies in place at the time under the FPL Group Capital, Inc. umbrella. The references to the relevant companies in the petition and this memorandum use the current "NextEra" names.

long-term debt has been paid down to approximately \$16 million (the “Current Obligation Amount”).

As set forth below, Staff has reviewed the petition and recommends approval.

Description of the Proposed Financing

By its current request, NHT seeks to issue long-term, secured debt securities in an aggregate principal amount not to exceed \$36 million. NHT described its financing plans with reference to the Current Obligation Amount and “New Loans.” According to NHT, it plans to enter into an amended and restated loan agreement (the “New Loan Agreement”) with its lender and indirect parent, NextEra Capital whereby it would a) repay and convert the approximate \$16 million Current Obligation Amount (including principal, accrued interest and fees) into a new borrowing (the “Current Obligation Loan”) with an extended term, and b) have the right to borrow additional amounts up to \$20 million (each such borrowing a “New Loan”) to finance capital costs, facility upgrades and operational expenses at the Seabrook Substation. The total principal amount of the borrowings under the amended and restated loan agreement would not exceed \$36 million. The New Loan Agreement will be secured by a pledge of NHT’s revenues and all of its assets.

NHT testified that the New Loan Agreement would have a final maturity date of 30 years after the closing date of the financing. The timing of the issuance of the Current Obligation Loan and any New Loans will differ. As the Current Obligation Loan represents existing indebtedness, NHT plans to convert that existing amount into a new borrowing at the time of closing on the New Loan Agreement. The up to \$20 million of New Loans would be issued within two years of the closing of the New Loan Agreement. Further, given the differences in the timing of the debt issuances, the interest rates for the Current Obligation Loan and any New Loans will be determined at the time the loan is made and could be different.³ For the Current Obligation Loan, the interest rate will be equal to the then-prevailing yield on a 30-year U.S. Treasury bond plus a fixed credit spread based on an indicative bid process for third-party private placement or through benchmarking of comparable debt issuances, but, in any event, will not exceed 6 percent. The interest rate for New Loans will be determined in a similar fashion and will use the same credit spread, but will incorporate the then-prevailing yield on a U.S. Treasury bond having a remaining term to maturity and principal amount most closely approximate to the loan being issued. The New Loans do not have a cap on the interest rate.

In its petition, NHT requested a final order from the Commission no later than July 1, 2013 and anticipated a closing date for the New Loan Agreement on or before August 1, 2013. In accordance with that schedule, NHT stated that any New Loan would be issued on or before July 30, 2015. Although the July 1, 2013 requested date for a Commission order has passed, Staff and NHT have been in contact since the time of the original filing, and it is Staff’s understanding that NHT plans to adjust the aforementioned dates accordingly upon issuance of a Commission order.

³ See also Exhibit A to the petition, “Form of Amended Loan Agreement” for additional details.

Staff Recommendation

As noted in its recommendations in NHT's prior financing proceedings, Staff views NHT's financing as somewhat different from a "typical" financing petition to be considered by the Commission for an electric utility. Typically, such petitions are received from a Commission-regulated distribution utility, with resulting implications to the utility's capital structure, cost of capital and, therefore, revenue requirements. In this case, however, while there are the same implications to NHT's cost of service, the resulting revenue requirements and customer rates fall under the purview of the FERC as NHT is a transmission utility. Staff notes, however, that based on the pro-forma financial statements included in the supporting material, additional paid-in capital and retained earnings will increase NHT's stockholders' equity sufficiently to provide for a capital structure following the proposed debt financing that will consist of the same component percentages of 38% debt and 62% equity as existed prior to the transactions.

Having reviewed the petition and the supporting documentation, Staff views the request as reasonable and recommends the Commission grant NHT's request for approval of the above-described financing transactions through the issuance of an order *nisi*. The filing is in accordance with the terms of the settlement agreement in DE 03-186 as well as RSA 369.

Please let me know if you have any questions or would like to discuss this matter further.

cc: Suzanne Amidon
Service List