STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 14-238

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

DETERMINATION REGARDING PSNH
GENERATING ASSETS

DIRECT TESTIMONY OF

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NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

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I. INTRODUCTION AND QUALIFICATIONS

Q. Mr. Dudley, please state your full name and business address.

A. My name is Jay E. Dudley. My business address is 21 South Fruit Street, Suite 10, Concord, NH 03301.

Q. Please state your employer and your position.

A. I am employed by the New Hampshire Public Utilities Commission ("Commission") as a Utility Analyst for the Electric Division.

Q. Please describe your professional background.

A. I started at the Commission in June of 2015 as a Utility Analyst in the Electric Division. Before joining the Commission, I was employed at the Vermont Public Service Board ("PSB") for seven years as a Utility Analyst and Hearing Officer. In that position I was primarily responsible for the analysis of financing and accounting order requests filed by all Vermont utilities, including review of auditor's reports, financial projections, and securities analysis. As Hearing Officer, I managed and adjudicated cases involving a broad range of utility-related issues including rate investigations, energy efficiency, consumer complaints, utility finance, construction projects, condemnations, and telecommunications. Prior to working for the PSB, I worked in the commercial banking sector in Vermont for twenty years where I held various management and administrative positions. My most recent role was as Vice President and Chief Credit Officer for Lyndon Bank in Lyndonville, Vermont. In that position I was responsible for directing and administering the analysis and credit risk management of the bank's loan portfolio, including internal loan review, regulatory compliance, and audit. In performing those responsibilities, I also provided oversight for the commercial and retail lending functions with detailed financial analysis of large corporate relationships, critique of loan proposals and loan structuring, consultation on business development efforts, and advised the Board of Directors on loan approvals and loan portfolio quality. Prior to my role as Chief Credit Officer, I held the position of Vice President of Loan Administration. In this position, I was responsible for directing and administering the underwriting, processing, and funding of all commercial, consumer, and residential mortgage loans. My responsibilities also included the management of loan processing and loan origination staff and partnering with the Compliance Officer to monitor and ensure compliance with all banking laws, regulations, and the bank's lending policy. Previous to my position as Loan Administration Vice President, I held the position of Assistant Vice President of Commercial Loan Administration with Passumpsic Savings Bank in St. Johnsbury, Vermont. In that role, I was responsible for supervising loan administration and loan operations within the commercial lending division of the bank.

Q. Please describe your educational background?

A. I received my Bachelor of Arts degree in Political Science from St. Michael's College. Throughout my career in banking, I took advantage of numerous continuing education opportunities involving college level coursework in the areas of accounting, financial analysis, law, economics, and regulatory compliance. Also, during my tenure with the PSB I took advantage of various continuing education opportunities including the

Regulatory Studies Program at Michigan State University and Utility Finance & Accounting for Financial Professionals at the Financial Accounting Institute.

Q. Have you previously testified before the Commission?

A. No I have not.

II. SUMMARY OF TESTIMONY

Q. Please describe the areas that your testimony addresses today.

A. My testimony first addresses the appropriateness of relying on the alleged cost savings related to the two-year rate case stay-out provision of the Settlement Agreement in terms of traditionally accepted cost-of-service regulatory practice. Next , I examine the current interest rate environment and the assertion by Public Service Company of New Hampshire ("PSNH" or "Company") and the Settling Parties that significant savings for ratepayers in terms of financing costs can only be achieved upon immediate divesture and securitization of stranded costs so as to lock in historically low interest rates in lieu of PSNH's cost of capital. Lastly, I address the efficacy of the proposed securitization by PSNH of the stranded costs resulting from the divestiture as compared with PSNH's pre-divestiture financing capacity and flexibility.

III. DISCUSSION OF SAVINGS FROM RATE CASE STAY-OUT PROVISION

Q. Please discuss the proposed rate case stay-out provision of the Settlement Agreement and the alleged cost savings of $77.2 million resulting therefrom.

A. Under the terms of the proposed Settlement Agreement, PSNH has agreed to refrain from filing a new distribution rate case with new rates to be effective on or before July 1, 2017,[1] resulting in an estimated total cost savings of $77.2 million. PSNH included these cost savings as part of its projection of overall customer savings represented in Exhibit EHC-1 attached to the direct testimony of PSNH witness Mr. Eric H. Chung. At page 1, line 21 of the exhibit, Mr. Chung shows distribution rate case stay-out savings of $19.3 million for the last half of 2015, $38.6 million of savings for 2016, and $19.3 million in savings for the first half of 2017. Mr. Chung states that he derives these savings from the average of the Commission-approved rate increases in the last two PSNH rate cases (Docket Nos. DE 09-035 and DE 06-028), using those rate cases as a proxy for his analysis.[2]

Q. What problems do you see with including these purported avoided costs with PSNH's overall savings analysis?

A. One of the weaknesses I find with this assertion involves the highly speculative nature of including such inputs in the analysis. As Mr. Chung admits in his direct testimony, PSNH did not perform a full cost-of-service analysis (with test year) to establish what PSNH's distribution rates would otherwise be in the absence of the Settlement.[3] He also acknowledges that without a cost of service analysis, it is difficult to accurately quantify customer savings.[4] Lacking a full cost-of-service analysis or even any partial or approximate analysis, I was unable to identify the key financial drivers that might

[1] This provision represents a two-year extension by PSNH of its agreement in Docket No. DE 09-035 not to file its next distribution rate case with rates effective earlier than July 1, 2015.

[2] Chung Testimony at 19; EHC-1 at 3.
[3] Chung Testimony at 19; Response to Staff Data Request Staff TS-1-003.
[4] Chung Testimony at 19.

potentially cause PSNH to file a rate case in the near term. In fact, nowhere in any of their filings does PSNH demonstrate the need or likelihood of a potential rate case filing within the next two years.[5] Instead, PSNH merely relies on its pledge under the Settlement Agreement that it will not file a rate case, while claiming without any basis that the alternative in the absence of the Settlement is a rate increase similar to those of the previous two rate cases. Consequently, the assertion by PSNH and the Settling Parties that the rate case stay-out provision provides realistic avoided costs in the future appears to be nothing more than broad speculation with no foundation.

In addition, the Commission should weigh the actual probability of PSNH filing a distribution rate case over the next two years in light of the past and present financial performance of the Company. Accordingly, in Exhibit JED-1, I have provided copies of NHPUC Form F-1 for PSNH required under NHPUC Rule 308 to report 12-month earnings for the distribution, transmission, generation, and total company assets on a quarterly basis. Included in this exhibit are the Form F-1s for the quarter just preceding the filing for the rate cases in Docket DE 06-028 (fourth quarter – 2005) and DE-09-035 (fourth quarter - 2008), along with the most recent filing of Form F-1 for the second quarter of 2015 which is the most recent quarter prior to the potential rate case filing that PSNH claims is being avoided under the Settlement Agreement. I also included the Form F-1 for the fourth quarter of 2014 for another recent comparison. As shown in those form F-1s, the 12-month earnings just prior to the submittal of the distribution rate case in Docket DE 06-028 is 6.59%, and the 12-month earnings just prior to the submittal of the distribution rate case in Docket DE 09-035 is 6.26%, are 2.76% and 2.73% below PSNH’s then prevailing allowed return on equity (“ROE”) of 9.35% and 8.99%

[5] Response to Data Request Staff TS 1-004.

respectively. In contrast, the 12-month earnings for the distribution plant at the end of the fourth quarter of 2014 and the second quarter of 2015 were 9.58% and 9.03% respectively, compared to PSNH's current allowed ROE of 9.81%. As this performance history indicates, PSNH's current level of earnings is not under pressure and its cost-of-service would have to experience a substantial increase over the next 24 months (approximately $36 million in 2015) to approach a similar impact on earnings experienced by PSNH in 2005 and 2008 in order to trigger a new rate case. Indeed, the most recent trend for 2015 indicates that PSNH may be over-earning relative to its allowed ROE, which would lead to a rate decrease in the event of a near term rate filing.[6] Moreover, if one were to compare interest rates that prevailed in 2009 to current rates, it is highly probable that the PSNH weighted average cost of capital would be well below 9.81% for its distribution plant, resulting in a significant rate reduction.[7] Consequently, absent any major and foreseeable cost drivers that would significantly increase future costs, and with PSNH's current earnings at or above its allowed rate of return, it appears unlikely that PSNH would file a new distribution rate case within the next two years regardless of the Settlement Agreement. It is even more unlikely that, if a rate case were filed, it would result in the magnitude of rate increase PSNH has assumed in its calculation of customer benefits. In fact, a near-term distribution rate case might well lead to a rate decrease.

[6] On June 9, 2014, PSNH made a filing pursuant to the earnings sharing arrangement under Section 4.4 of a settlement agreement approved by the Commission in Order No. 25,123 (June 28, 2010). In its filing, PSNH reported that its distribution revenue had exceeded an ROE threshold of 10% thus trigging the earnings sharing mechanism of the agreement resulting in a Commission ordered reduction in distribution revenue of $1.312 million and a corresponding reduction in distribution rates. The settlement agreement expired on July 1, 2015. *See* Docket DE 09-035, Order of 6/27/14 at 2.

[7] The average 10-year U.S. Treasury Bond rate in 2009 was 3.50% compared with 2.20% for 2015 for a difference of 1.30%. Bloomberg L.P. as of September 8, 2015.

Lastly, acceptance by the Commission of the projected cost savings from the rate case stay-out provision of the Settlement Agreement would constitute a gross departure from traditional regulatory practice. That is, in order for the Commission to accept PSNH's inclusion of the avoided cost savings in the overall cost savings analysis, estimated by Mr. Chung to be $77.2 million, the Commission would have to find that such costs are legitimate under the "known and measurable" standard of traditional cost-of-service regulation, and as extensively applied by the U.S. Federal Energy Regulatory Commission ("FERC") under its *Good Utility Practice* guidelines.[8] To meet this test, a regulated utility must justify with documentation, facts, and methodology that the costs under consideration are legitimate and realistic. As noted above, because it is difficult to quantify such cost savings in the absence of reviewing a full cost-of-service analysis, which PSNH did not submit as part of this proceeding, and due to the fact that these costs will likely change with the passage of time, the alleged avoided cost savings of the rate case stay-out provision cannot be substantiated and, as a result, cannot meet the "known and measurable" standard. Certainly, PSNH's attempt to estimate these savings with reference to the average of its last two rate increases does not meet this standard, as Mr. Chung acknowledged.

In light of the analysis above, I recommend that the unsubstantiated savings attributed to the assurance by PSNH that a rate case will not be filed prior to July 1, 2017, be disregarded by the Commission and excluded from any analysis performed by Staff. It is my understanding that Staff witness Michael Cannata relies on this finding and does not include the avoided costs of the stay-out provision in his over-all cost analysis.

[8] Federal Regulatory Commission, *Pro Forma* Open Access Transmission Tariff (OATT), Appendix C.

IV. DISCUSSION OF INTEREST RATE ENVIRONMENT AS REASON TO EXPEDITE DIVESTURE PROCESS

. Q. Many of Settling Parties state that now is the time to sell the PSNH generation fleet to allow for the expeditious issuance of the Rate Recovery Bonds since interest rates are at historic lows and very likely to increase if a sale is delayed. Do you agree?

I agree that interest rates are likely to rise at some point in the future given that the Federal Reserve Board ("Fed") has held interest rates at near zero for the last seven years and the only direction for rates to go is up. However, I am not persuaded that the specter of an imminent rate increase, nor the cost of increased interest rates, should be major driving factors for the expedited sale of the generation fleet.

First, it is important to recognize the past and present state of the U.S. and global economies and the impact that has had on interest rate policy. In recent years, since the collapse of the financial markets in 2008, the global economy has been hindered by sluggish growth, low inflation, gradual downward pressure on commodity prices, declining growth in China, sovereign debt issues, as well as other negative factors; coupled with similar trends in the U.S. involving consistently low inflation, decelerating productivity, and lackluster job and wage growth (as compared with pre-recession levels).[9] The persistence of these trends has greatly complicated the rate setting policies of central banks all over the world and has contributed to making the Fed's case for raising rates at this point in time less compelling.[10] Indeed, in recent meetings held by

[9] Sam Fleming, *Era of low interest rates fails to generate growth policymakers expected*, Financial Times, September 9, 2015, at 3; David Harrison, *Blurry Job Picture Poses Test for Fed*, Wall St. J., September 5-6, 2015, at 2.
[10] *Id.*

two prominent central banks, the Bank of England and the European Central Bank, both banks decided to keep interest rates on hold at record lows.[11]

Nevertheless, although there is much speculation as to what action the Fed will take at its next meeting (September 16 and 17), if the Fed does opt to increase short term rates, as they have been signaling in recent months, the increase will likely be small at approximately 0.25% constituting a jump to 0.50% - still historically low and not that significant in terms of financial cost (albeit symbolically significant for being the first rate increase since 2006). In addition, if the above economic conditions continue, there does not appear to be sufficient justification for initiating a tightening cycle similar to the one experienced in the early 1980s. At that time, as many may recall, the Fed's policy of substantial and successive rate increases triggered a recession in order to defeat the hyper-inflation that was endemic at that time.[12] Nothing of that magnitude exists today and embarking on a similar cycle of monetary tightening by the Fed would likely trigger another recession causing the Fed to reverse course and return to a low interest rate policy.[13]

Secondly, it is important to note that when weighing the actual financial impact of an interest rate increase on the proposed securitization, in comparison with the magnitude of the total costs to ratepayers posed by the divestiture, the impact is not substantial. The analysis presented by Mr. Chung in Exhibit EHC-1 used a 3% interest rate for financing stranded costs under the proposed terms for the Rate Recovery Bonds ("RRBs") under

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[11] Claire Jones, *How US interest rates are likely to weigh on Europe*, Financial Times, September 9, 2015, at 2. Also see: *ECB holds interest rates at record lows,* Financial Times, September 3, 2015; and *MPC shows no sign of urgency over possible rate rise,* Financial Times, September 10, 2015.

[12] Sam Fleming, *Era of low interest rates fails to generate growth policymakers expected*, Financial Times, September 9, 2015, at 3.

[13] Martin Wolf, *The case for keeping US interest rates low*, Financial Times, September 9, 2015, at 2. See also Harriet Torry, *Lesson for Fed: Rate Rises Are Proving Hard to Sustain*, Wall St. J., September 14, 2015, at 1-2.

the Settlement Agreement. I believe this is a reasonable estimate given the Company's current ability to borrow funds at competitive rates. That analysis also estimated that the net stranded costs to be securitized would be approximately $507 million. Referring to the amortization schedule depicted on page 5 of Exhibit EHC-1, if interest rates were to rise to 4%, an estimated average amount of $1.54 million in additional costs per year would be incurred, for a total of $23.1 million over 15 years.[14] If interest rates were to rise to 5% (reflecting a vigorous tightening cycle by the Fed as discussed above), an additional $3.05 million in interest would be incurred per year, for a total of $45.8 million over 15 years.[15] In the event divestiture were to be delayed for five years, and assuming that the net amount of stranded costs were to remain constant at $507 million, the monetary penalty of delay in terms of additional interest expense would be approximately $7.7 million at 4% interest and $15.25 million at 5% interest. Therefore, to obtain the correct comparison of the interest rate penalty posed by a delay in divestiture, one should compare that penalty to the exposure that customers have to market price variance as Staff witness Cannata depicts in his Exhibit MDC-3. By doing so, the significance of the added interest expense of $15.25 million at a 5% interest rate fades in comparison to the potential $677.64 million in overall costs to ratepayers as a result of divestiture. Consequently, it appears that the savings that could be obtained by moving forward with an expedited sale of the units does not offset the extreme market price volatility that is indicated by Mr. Cannata's analysis.

In terms of the collective assertion by most of the Settling Parties that approval of the Settlement Agreement should be expedited so as to take advantage of historically low

[14] Based on total principal and interest payments increasing from $635.3 million to $658.4 million. Annual interest amounts will vary based on reductions to the principal balance. See Response to Data Request Staff TS 1-017.

interest rates, the reality is that the proposed securitization is already at-risk to rate increases regardless of how quickly the Commission may act. The problem with the Settling Parties' argument is that the Fed's schedule does not comport with the procedural schedule set out in this docket by the Commission. That is, the procedural schedule sets a hearing date on the merits in this case for November 16-17, 2015, with the unofficial aspirational goal of a decision by the Commission to be rendered by year-end. However, over the same time period, the Federal Open Market Committee has three more meetings scheduled between now and December 31 in which it can decide whether or not to increase rates.[16] Consequently, even if the Commission were to act expeditiously, it may not be soon enough within the boundaries of the procedural schedule to mitigate the risk of a Fed rate increase and thus satisfy the concerns of the Settling Parties. In addition, given that the actual amount of the stranded costs will remain unknown until completion of the asset auction process, and taking into account the additional time needed for underwriting, rating, and marketing the RRBs, it is likely that issuance of the RRBs will not take place much before mid to late 2016 (as assumed at page 5 of Mr. Chung's Exhibit EHC-1). As a result, I find the concerns of the Settling Parties to be unfounded given that the vulnerability of the proposed securitization to interest rate risk will remain for some time into the future even if the Commission is able act expeditiously.

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[15] *Id*. Based on total principal and interest payments increasing from $635.3 million to $681.4 million.
[16] www.federalreserve.gov/monetarypolicy/fomccalendars

V. DISCUSSION OF PROPOSED SECURITIZATION OF STRANDED COSTS

Q. The Settlement Agreement calls for the securitization of the stranded costs resulting from the divestiture of the PSNH assets and is codified under RSA 369-B:1. Given that the costs of the scrubber may constitute a significant portion of the stranded costs, is divestiture necessary in order to securitize these costs?

The exact amount of the stranded costs contemplated in the Settlement Agreement will not be known until the auction process is complete and the generating assets are sold. In addition, the total allowable costs for the scrubber will not be known until the Commission renders its decision in Docket DE 14-120. I agree that securitization of stranded costs by utilities has been a standard and customary practice accepted by most utility regulators over the past twenty years and is not new to PSNH since PSNH previously conducted two such securitizations in 2001 and 2002 involving the Seabrook stranded costs and stranded costs related to the PURPA rate order obligation.[17] However, in the present case, I am unpersuaded that securitization in lieu of divesture is the only alternative for financing the bulk of these costs (which largely consists of the costs of the scrubber), nor am I convinced that it constitutes the cheapest alternative for ratepayers. My understanding is that under the requirements of RSA 125-O:18, all prudently incurred scrubber costs resulting from complying with RSA 125-O:13 must be recovered from ratepayers through the default service charge.[18] However, as my analysis indicates below, and in the event that the Commission decides that a delay in divestiture is in the economic interests of customers, a more cost-effective alternative for ratepayers may exist, and if so, I believe a credible case could be made to the Legislature to modify or repeal RSA 125-O:13.

[17] Lembo and O'Neil at 5.
[18] Response to Data Request Staff TS 1-013.

In their direct testimony, PSNH witnesses Mr. Lembo and Mr. O'Neil argue that only an RRB issuance can garner a triple A rating from the rating agencies and thus secure the lowest possible financing rates for PSNH customers.[19] They also assert that any rating below triple A will confuse the market and signal that the transaction is "abnormal and risky."[20] The problem I find with these arguments is that PSNH already has the ability to borrow at very competitive rates through traditional bond issuance, indicating that most of the proposed stranded costs, largely comprised of the costs associated with the scrubber, could be reasonably financed now under advantageous terms, in the event the Commission were to delay divestiture for an additional five years and issue a prudency decision in Docket DE 14-120, or decide that divestiture is not in the economic interests of retail customers. According to the 2014 10-K filing for Eversource with the Securities and Exchange Commission ("SEC"), PSNH has recently issued first mortgage bonds at rates of 3.2% and 3.5% in the amounts of $160 million and $360 million respectively.[21] The Eversource 10-K also reveals that PSNH's most recent credit ratings from Moody's Investor Services, Standard & Poor's, and Fitch Ratings are A2, A, and A respectively indicating that PSNH's current financial performance, and risk profile, are looked upon favorably by the marketplace and are sufficient to obtain advantageous borrowing rates, and that a triple A rating is not necessarily required for a company like PSNH in the current interest rate environment.[22] If indeed the goal of PSNH is to quickly take advantage of historically low interest rates before that opportunity lapses, and given that the timing of the proposed RRB issuance and the stranded cost determination are months away, it would appear that PSNH is in a position to do so currently without divestiture (assuming modification by the Legislature of RSA 125-O:13), and at a lower

[19] *Id*. at 6.
[20] *Id*. at 5.
[21] Eversource, SEC Form 10-K for 2014, at 108.
[22] *Id*. at 33.

maximum borrowing amount (scrubber costs only) since the stranded costs from the other generating assets would not be included in the total debt issuance.

Mr. Lembo and Mr. O'Neil also assert that the characteristics of the RRB's provide unique and additional benefits, aside from lower interest rates, for the Company and for ratepayers. Those characteristics include: (i) creation of a Special Purpose Securitization Entity ("SPSE") to issue the bonds, make debt service payments to investors, and insulate investors from a PSNH bankruptcy; (ii) non-bypassability of the RRB charge; (iii) non-impairment pledge from the State of New Hampshire; (iv) credit enhancement provided by the true-up mechanism for the RRB charge; and (v) irrevocability of the RRB charge.[23] I will address each of these characteristics one at a time.

First, I agree that the unique structure of the RRBs provides additional credit enhancements, as compared with traditional forms of debt issuance, but only within the context of state-sponsored financing. The enhancements highlighted by Mr. Lembo and Mr. O'Neil only exist because the RRB's are a creature of state statute (specifically RSA 369-B) and are thus afforded special treatment under statute - that is the primary difference between the RRBs and any private financing transaction. Because the RRBs are a creature of the State, investors look for additional safeguards against potential legislative modifications to the transaction that could be detrimental to the interests of investors.[24] In all other respects, the two transaction types possess similar if not identical characteristics and protections. In fact, if PSNH were to elect to finance the scrubber costs through a private bond issuance in the normal course, it could do so without noticing a substantial difference between the two transaction types.

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[23] Lembo and O'Neil at 7-10.
[24] *Id*. at 8.

Mr. Lembo and Mr. O'Neil assert that through the creation of the SPSE, the RRBs can be issued at a lower cost because of the SPSE's triple A rating and the bankruptcy protection that it offers investors due to ring fencing the SPSE off from the rest of the corporate structure of PSNH with its own dedicated asset.[25] Although the existence of the SPSE may provide some added comfort to bond investors, I have already established in the discussion above that PSNH's current A rating appears to be sufficient to allow PSNH to obtain financing at favorable interest rates and thus reflects the positive perception by the marketplace that PSNH poses acceptable risks for investors. Most bond investors have already baked-in their expectations of bankruptcy risk into their calculus when deciding to invest, and it appears that the current market expectation is that bankruptcy is remote for PSNH (no doubt the financial support provided by the parent company, Northeast Utilities, factors into this perception). What is unclear is how exactly the SPSE will save ratepayers money. The various costs involved in setting up the SPSE could be substantial and constitute additional costs that will be passed on to customers. Traditional bond issuance does not require the creation of a SPSE and thus does not pose those additional costs.

The witnesses also testify that in order to receive the coveted triple A rating, the RRB charge must be non-bypassable, as required by statute, and apply to all retail customers within PSNH's service territory regardless of whether or not those customers take service from PSNH or a competitive supplier. Again, as discussed above, the triple A rating is important only as a component of the RRB financing and the statutory regime, and is not critical in order for PSNH to obtain financing under favorable terms outside of the divestiture process. In addition, like the RRBs and the RRB charge, traditional bonds issued by a regulated utility will also have a dedicated income stream since the debt servicing costs will be included in rates. Moreover, not

[25] *Id*. at 7-8.

only would the bonds be supported in rates, they would also be secured by all of the assets of PSNH if the debt is issued under PSNH's mortgage indenture.

I also agree with Mr. Lembo's and Mr. O'Neil's argument that the impairment pledge from the State of New Hampshire is an important feature for the RRB issuance since it lends additional comfort to investors that the State will not act to limit or alter the RRB charge, or the ultimate financing order issued by the Commission, until the RRBs are paid in full.[26] Again, this characteristic is unique to the statutory nature of the RRB issuance and would not apply, nor be required, as part of any private financing transaction by PSNH. Moreover, absent a court ordered bankruptcy process or any illegal activity, the State would have no power to intervene in or alter a private contractual arrangement between PSNH and its lenders.

Next, the witnesses assert that additional credit enhancement is provided by the so-called "RRB charge true-up mechanism" which allows for periodic adjustments to the RRB charge, up or down, in the event of variability in the collections of the RRB charge due to changes in energy sales or changes in payment or charge-off patterns.[27] Also, as an additional enhancement, PSNH will fund a "Reserve Subaccount" equal to approximately 0.50% of the issuance size (or $2.5 million using Mr. Chung's stranded cost amount of $507 million at page 5 of Exhibit EHC-1), to support potential shortfalls in the RRB charge collections.[28] Once again, such enhancements are only necessary due to the statutory nature of the RRB structure. Through traditional bond finance, the debt servicing costs would be included in rates at a fixed amount, as opposed to creating a separate charge, and would have to be paid, along with other debt obligations, under penalty of default regardless of the potential variability in energy sales. If PSNH's revenue comes under pressure, the Company would file a rate case in order to maintain its revenue

[26] *Id*. at 8.
[27] *Id*. at 9-10.

requirement. In addition, PSNH would not need to go through the exercise and added expense of setting up and funding a reserve account. Because the SPSE, as proposed, is not a regulated utility, it needs the true up mechanism to maintain its income stream. However, unlike a rate case, an important distinction is that the "Servicer" for the SPSE has the ability to adjust the RRB charge as needed,[29] without the oversight or publicity offered by a regulatory process before the Commission. What is unclear from PSNH's testimony is how much discretion the Servicer will have in setting the RRB charge, and how accountable the Servicer will be in the performance of that function.

Lastly, Mr. Lembo and Mr. O'Neil assert that the RRB structure is advantageous because, under statute, the finance order issued by the Commission and the RRB charge will be irrevocable such that the State, the Commission, nor any other state agency, will have the authority to rescind or amend the finance order or the RRB charge.[30] Again, in terms of a private bond issuance, and as stated above in the discussion regarding the impairment pledge, short of a bankruptcy proceeding or the committing of any unlawful act by PSNH, neither the State nor any state agency has the power to interfere with a private contractual obligation between PSNH and its lenders. Also, under the penalties of default, any debt obligation entered into by PSNH is technically irrevocable.

Finally, the financial benefit of a traditional bond issuance can be illustrated by using a simple amortization schedule similar to the one utilized by Mr. Chung in his Exhibit EHC-1 at page 5. I have provided a similar schedule in the table below. First, we can establish the approximate issuance amount by deducting the estimated amount of the recovered scrubber costs through

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[28] *Id*.
[29] *Id*. at 9.
[30] *Id*. at 10.

rates, approximately $120 million,[31] from the total scrubber cost of $422 million, providing a net financing amount of $302 million.[32] Adding in the estimated issuance costs of $4.8 million, we arrive at a total debt issuance in the amount of $306.8 million. Using as a proxy a 3.5% interest rate based on a recent series of first mortgage bonds issued by PSNH,[33] and including an approximation of annual administrative costs of $538,000, we obtain the following debt payment schedule:

Year	Principal Pymt	Interest Pymt	Admin Pymt	Total Pymt	Balance
2016	$0	$0	$0	$0	$306,800
2017	20,453	10,485	538	31,476	286,347
2018	20,453	9,922	538	30,913	265,894
2019	20,453	9,339	538	30,330	245,441
2020	20,453	8,734	538	29,725	224,988
2021	20,453	8,110	538	29,101	204,535
2022	20,453	7,462	538	28,453	184,082
2023	20,453	6,791	538	27,782	163,629
2024	20,453	6,097	538	27,080	143,176
2025	20,453	5,378	538	26,369	122,723
2026	20,453	4,633	538	25,624	102,270
2027	20,453	3,862	538	24,853	81,817
2028	20,453	3,063	538	24,054	61,364
2029	20,453	2,236	538	23,227	40,911
2030	20,453	1,379	538	22,370	20,458
2031	20,453	492	538	21,483	0
Total	$306,800	$87,983	$8,070	$402,840	-

As the table illustrates, a traditional bond issuance under the conditions described above, could potentially yield substantial savings for ratepayers as compared with the issuance of the RRBs post divestiture. First, the impact of the annual debt service is much lower with an initial annual savings, on average, of approximately $17 million when compared with Mr. Chung's projection.

[31] Attachment EHC-2.
[32] Again, this is an approximate analysis for illustrative purposes, as was Mr. Chung's, and assumes a favorable decision by the Commission in Docket DE 14-120.
[33] Eversource, SEC Form 10-K for 2014, at 32, 108.

In terms of interest expense, on average, the annual savings would be approximately $3.0 million. Total interest expense savings for ratepayers through maturity (15 years) would be approximately $26.8 million. It is also worth noting that if the Commission were to postpone divestiture for five years, the resulting stranded cost amount to be securitized at the end of the five year period would be about half the current amount proposed by PSNH at approximately $204 million due to amortization of principal. In addition, as stated above, I used a term of fifteen years in order to make a like comparison with Mr. Chung's Exhibit EHC-1 at page 5, however, PSNH could achieve additional savings in interest costs by opting for a ten-year issuance or even a seven-year issuance depending on its projected cash flows available for debt servicing at that time.

Q. Does that conclude your testimony?

A. Yes, it does.