STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	)
	)
Carrying Charge Rate on Cash Working Capital	)

DG 07-072

REBUTTAL TESTIMONY

OF

JAMES A. ROTHSCHILD

ON BEHALF OF THE

PUBLIC UTILITIES COMMISSION

October 3, 2008

Q. ARE YOU THE SAME JAMES A. ROTHSCHILD WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. HAVE YOU READ THE DIRECT TESTIMONY FILED BY MR. ROBERT HEVERT IN THIS PROCEEDING?

A. Yes.

Q. CAN YOU PLEASE SUMMARIZE THE MAJOR OPINIONS THAT YOU EXPRESS IN THIS REBUTTAL TESTIMONY IN RESPONSE TO MR. HEVERT'S DIRECT TESTIMONY?

A. Yes. I contend that my direct testimony:

- Is consistent with corporate financial principles.
- Is consistent with the Commission's finding that individual sources of financing should not be tracked to specific assets.
- Fully respects the rule against single issue ratemaking.
- Respects basic principles of subtraction and addition when allocating short-term debt.

Q. ON PAGE 4, LINES 3-4 OF MR. HEVERT'S TESTIMONY HE STATES THAT YOUR DECISION TREE ANALYSIS "PRESUMES A HIERARCHY FOR THE USE OF SHORT-TERM DEBT THAT DOES NOT COMPORT WITH THE REALITY OF CORPORATE FINANCING PRACTICES." DO YOU AGREE?

A. No. As explained in my direct testimony, my decision tree analysis was designed to be consistent with the treatment of short-term debt in the regulatory process, especially the FERC policy that requires available short-term debt to be first allocated to the financing of CWIP that is eligible to earn the AFUDC rate. Furthermore, my direct testimony has shown that it is logical to assign any short-term debt not previously allocated to either rate base or CWIP to supply-related working capital. This is because the substantial swings in the need for supply-related working capital throughout the year indicate that short-term debt is most likely the least cost funding source.

Q. ON PAGE 4, LINES 4-6, MR. HEVERT STATES THAT YOUR ANALYSIS "IS INCONSISTENT WITH THE COMMISSION'S FINDING THAT INDIVIDUAL SOURCES OF FINANCING CANNOT BE TRACKED TO SPECIFIC ASSETS." PLEASE COMMENT

A. It is certainly correct that when a company finances a new construction project, it would be inappropriate to assign a specific debt offering or a specific equity offering to that asset. When a company finances fixed assets, funds are fungible. Just because the next increment of capital a company may have decided to issue when obtaining funds for a specific project happened to be, for example, all debt or all equity, it does NOT mean that the cost of that incremental capital should be assigned to that specific project. Instead, the overall cost of capital should be used. However, the facts behind what I have presented in this case are completely different for several reasons. First, the asset to be financed is not a fixed asset but rather supply-related working capital. Second, I showed in my direct testimony that unlike fixed rate base assets, the need for supply-related working capital varies considerably throughout the year making it especially economical to use short-term debt for its financing. Third, I assigned short-term debt to supply-related working capital only after testing that there was or should have been enough short-term debt left over after allocating short-term debt to rate base and/or CWIP.

Q. ON PAGE 4, LINES 6-8, MR. HEVERT CLAIMS THAT YOUR METHODOLOGY IGNORES THE NEED TO MAKE A COROLLARY ADJUSTMENT TO THE PERCENTAGE OF SHORT-TERM DEBT IN THE CAPITAL STRUCTURE. HE GOES ON TO CLAIM AT PAGE 14 THAT THIS AMOUNTS TO "UNBALANCED, SINGLE ISSUE RATEMAKING." DO YOU AGREE?

A. No. Single issue ratemaking occurs when rates are modified based on only one of many factors that normally determine a company's regulated revenue requirements. The concern, which is generally expressed in the context of base rates, is that changing rates based on only one factor may ignore offsetting changes in other factors. This, however, is not a valid concern here because the focus of this proceeding, supply-related working capital, is not a base rate component. Furthermore, New Hampshire gas and electric utilities unbundled their retail rates many years ago, which means that gas and power supply-related costs, including supply-related working capital, were separated from distribution costs and collected independently through commodity rates. Therefore, any change in the level of the unbundled commodity rates should have no effect on the level or recovery of distribution costs. Finally, it is important to note that I carefully avoided any inappropriate re-mixing of unbundled costs by adopting a methodology that equates the amount of short-term debt available to finance supply-related working capital as the short-term debt balance less the amount allocated to rate base.

Q. ON PAGE 4, LINES 8-11, MR. HEVERT CLAIMS THAT YOUR PROPOSED ANALYSIS OF SUPPLY-RELATED WORKING CAPITAL IS DESIGNED TO " ALWAYS ARRIVE AT THE SAME CONCLUSION, I.E., THAT THE SUPPLY-RELATED WORKING CAPITAL CARRYING CHARGE SHOULD BE THE SHORT-TERM DEBT RATE." DO YOU AGREE?

A. No. The methodology I have proposed showed for one company, Unitil, that it did not have enough short-term debt to cover its supply-related working capital need. This, however, was because the company failed to make full use of the short-term debt limit authorized by the Commission. Since that time, Unitil has requested and received permission to increase its short-term debt limit to a level substantially in excess of the amount that would be needed to cover CWIP, rate base and supply-related working capital. For a second company, PSNH, the methodology does not currently apply because that company does not seek recovery of supply-related working capital. A third company, Granite State, does not currently use any short-term debt. This means that it could easily have acquired enough to cover its supply-related working capital need. For the remaining two companies, the methodology showed that they actually had more than enough short-term debt left over, after subtracting the short-term debt financing CWIP and the short term debt financing rate base, to cover their supply-related working capital needs. Therefore, an objective look at the facts related to the companies in this proceeding reach the conclusion that short term debt is or could reasonably be available to finance supply-related working capital. However, any one of these companies at some time in the future may find itself in a situation where the methodology concludes that there is not enough short-term debt to finance supply-related working capital.

Q. ON PAGE 13, LINES 6-9 OF HIS TESTIMONY, MR. HEVERT SAYS THAT YOUR DECISION TREE IS "INCONSISTENT WITH INDUSTRY PRACTICE IN THAT IT IS PREMISED ON AN INITIAL ALLOCATION OF SHORT-TERM DEBT TO EXISTING LONG-TERM ASSETS (NON-SUPPLY-RELATED WORKING CAPITAL IN RATE BASE) AND LONG-LIVED ASSETS UNDER CONSTRUCTION (CWIP). DOES THIS GO AGAINST INDUSTRY PRACTISE?

A. No. As noted above, the decision tree was specifically designed to be consistent with the way utility companies are regulated. Regulation assigns some of the available short-term debt to rate base and some to CWIP. The only short-term debt that has been considered for financing supply-related working capital is the amount that is either actually left over after financing rate base and/or CWIP or would have been left over had the company been using a reasonable amount of short-term debt.

Q. ON PAGE 15 OF HIS TESTIMONY, MR. HEVERT CLAIMS THAT "...SIMULTANEOUSLY INCLUDING SHORT-TERM DEBT IN THE RATEMAKING CAPITAL STRUCTURE AND APPLYING THE SHORT-TERM DEBT RATE IN CALCULATING THE CARRYING COST OF SUPPLY-RELATED WORKING CAPITAL EFFECTIVELY DOUBLE-COUNTS THE COMPARATIVELY

LOW SHORT-TERM DEBT RATE." HAVE YOU DONE WHAT MR. HEVERT CLAIMS YOU HAVE DONE?

A. No. The decision tree methodology I have proposed eliminates the risk of a double-count because it specifically subtracts short-term debt financing CWIP and short-term debt financing rate base from the available short-term debt balance. This procedure was designed precisely for the reason of eliminating a double-count of the benefits of short-term debt.

Q. ON PAGE 20, LINES 4-7 OF MR. HEVERT'S TESTIMONY HE SAYS THAT YOUR DECISION TREE ONLY EVALUATES SHORT-TERM DEBT LEVELS AT FOUR DISCRETE POINTS DURING THE YEAR. IS THIS TRUE?

A. No. As can be seen in my direct testimony (pages 14, 17, 20 and 25) the monthly balance of supply-related working capital is graphed to determine if it is of a cyclical nature and possibly most economically funded with short-term debt.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes.