

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

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

DG 07-072

SUPPLEMENTAL TESTIMONY
OF
ROBERT B. HEVERT

December 5, 2008

1 I. INTRODUCTION AND QUALIFICATIONS

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Robert B. Hevert. My business address is 293 Boston Post Road West, Suite
4 500, Marlborough, Massachusetts 01752.

5
6 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

7 A. I am President of Concentric Energy Advisors, Inc. ("Concentric"). Concentric is a
8 management consulting firm specializing in financial and economic services to the
9 energy industry.

10
11 Q. ARE YOU THE SAME ROBERT HEVERT THAT PREVIOUSLY FILED
12 TESTIMONY IN THIS PROCEEDING?

13 A. Yes, I am.

14
15 Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

16 A. I am submitting this testimony before the New Hampshire Public Utilities Commission
17 ("Commission") on behalf of Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth
18 Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National
19 Grid, and Northern Utilities, Inc. – New Hampshire Division ("Northern") (collectively,
20 the "Companies", individually a "Company").

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 A. The purpose of my testimony is to supplement my initial direct testimony in order to
3 respond to the Third Revised Direct Testimony (referred to herein as the “Third Revised
4 Testimony”) of James A. Rothschild.¹

5
6 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

7 A. The balance of my testimony is organized in four sections. Section II summarizes my
8 principal conclusions and recommendations based on my assessment of the Third
9 Revised Testimony. Section III reviews the changes contained in the Third Revised
10 Testimony relative to Mr. Rothschild’s Second Revised Testimony,² and Section IV
11 addresses the continued shortcomings in Mr. Rothschild’s analysis and recommendations.

12

13 **II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

14 **Q. WHAT ARE YOUR PRIMARY CONCLUSIONS WITH RESPECT TO MR.**
15 **ROTHSCHILD’S THIRD REVISED TESTIMONY?**

16 A. As discussed throughout the balance of my testimony, while Mr. Rothschild corrected
17 certain inputs to his analysis and introduced several new concepts, the “Decision Tree”
18 on which he continues to base his analyses and recommendations remains fundamentally
19 flawed and unsuitable for the purpose of determining the appropriate carrying charge

¹ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008.

² Mr. Rothschild’s Second Revised Testimony, which was dated June 2, 2008, actually was filed on July 14, 2008. For the avoidance of doubt, all references in this testimony to Mr. Rothschild’s Second Revised Testimony refer to the testimony filed on July 14, 2008.

1 associated with the Companies' supply-related working capital. Based upon my review
2 of Mr. Rothschild's Third Revised Testimony, my primary conclusions are as follows:

- 3 1. Regardless of the modifications and additions that Mr. Rothschild has made to his
4 analyses in his Third Revised Testimony, the recommendations set forth in my Direct
5 Testimony have not changed, and as discussed throughout the balance of my
6 Supplemental Testimony, the shortcomings in Mr. Rothschild's analysis provide
7 further support for the conclusions stated in my Direct Testimony.
- 8 2. While Mr. Rothschild's Third Revised Testimony now includes a reference to a
9 recent Commission Order, he fails to consider other relevant Commission Orders
10 regarding short-term debt financing, which when considered, highlight significant
11 shortcomings in the Decision Tree.
- 12 3. The logic underlying Mr. Rothschild's Decision Tree analysis continues to be flawed.
13 Notwithstanding that Mr. Rothschild continues to predicate his recommendations on
14 the "FERC method" for calculating Allowance for Funds Used During Construction,
15 ("AFUDC"),³ his Decision Tree and associated schedules continue to deviate from
16 that method. As a result, in at least one instance, Mr. Rothschild has arbitrarily
17 created a hypothetical short-term debt balance that is sufficient to cover both supply-
18 related costs and base-rate related costs. By doing so, Mr. Rothschild has made a
19 singular change to supply-related costs, while ignoring the off-setting change to base
20 rate-related costs. Thus, in addition to its propensity to provide unreliable results, the

³ See, New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 12.

1 Decision Tree is susceptible to producing results that contravene the Commission's
2 long-standing prohibition against single-issue ratemaking.⁴

3 4. Mr. Rothschild's analysis continues to mistakenly assume that month-end short-term
4 debt balances are representative of daily short-term debt balances. As a consequence,
5 the Decision Tree is far too simplistic in that the use of four data points, as
6 representative of the outstanding short-term debt balances for a year, fails to take into
7 account the complexity of the daily financing issues that are faced by utilities.

8 5. The Third Revised Testimony also introduces a new criterion by which to assess the
9 reasonableness of the Companies' short-term debt balances, *i.e.*, Mr. Rothschild
10 asserts that annual average short-term debt balances can be used to assess the
11 reasonableness of quarter-end short-term debt balances. However, this new criterion
12 does not comport with the Companies' actual operations in two critical aspects and
13 therefore is an inappropriate basis for concluding, as Mr. Rothschild does, that the
14 short-term debt rate should be utilized for purposes of determining the Companies'
15 supply-related working capital allowance.

16 6. Mr. Rothschild's analysis fails to consider market conditions when assessing short-
17 term debt balances for purposes of his Decision Tree analysis. Importantly, the Third
18 Revised Testimony makes no mention of the ongoing capital market dislocation and
19 the implications of market conditions for making day-to-day financing decisions.
20 Rather than acknowledging recent market developments and recognizing that current
21 and expected capital market conditions can and do influence short-term borrowing

⁴ As discussed in Section IV, Federal Power Commission ("FPC") Order 561, which is the origin of the "FERC method" for calculating AFUDC, specifically warns against the double-counting of capital costs.

1 decisions, Mr. Rothschild maintains his view that if short-term borrowing capacity is
2 available, it should be used in its entirety.⁵

3 Therefore, notwithstanding the numerous revisions and additions contained in Mr.
4 Rothschild's Third Revised Testimony, his methodology and conclusions continue to fail
5 to meet three very basic standards of review: (1) in light of the arbitrary standards
6 regarding the appropriate level of short-term debt, the theory underlying Mr. Rothschild's
7 approach cannot be tested in any meaningful manner; (2) the deviations in logic
8 discussed in 1. above, together with the myriad assumptions (discussed in Section IV),
9 substantially increase the potential rate of error inherent in the approach; and (3) the
10 Third Revised Testimony still does not address whether the Decision Tree has been
11 accepted in other jurisdictions, and as such, there is no basis to assume that it is a
12 generally accepted methodology.⁶

13
14 **Q. HAVE YOU CHANGED YOUR RECOMMENDATION AS A RESULT OF THE**
15 **THIRD REVISED TESTIMONY?**

16 **A.** No, I have not. If anything, the continued shortcomings in Mr. Rothschild's testimony
17 suggest that the appropriate approach is to apply the pre-tax rate of return to supply-
18 related working capital for determining utilities' supply-related working capital
19 allowance. However, as discussed in my Direct Testimony, should the Commission
20 order the Companies to apply some measure of short-term rates to supply-related working

⁵ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008.

⁶ See, e.g., Robert Weill, Michael Wagner, Peter Frank, Litigation Services Handbook: The Role of the Financial Expert, 3rd Ed., 2001, at 2.2.

1 capital, that rate should only be applied to the extent that the actual amount of
2 outstanding short-term debt is sufficient to cover the total of construction work in
3 progress ("CWIP"), short-term debt allocated to rate base, supply inventories and supply-
4 related working capital. To the extent that the balance of short-term debt is insufficient to
5 cover those amounts, the pre-tax rate of return should be applied.

6
7 **III. CHANGES CONTAINED IN THE THIRD REVISED TESTIMONY**

8 **Q. PLEASE SUMMARIZE CHANGES CONTAINED IN MR. ROTHSCHILD'S**
9 **THIRD REVISED TESTIMONY.**

10 **A.** The Third Revised Testimony reflects numerous changes to the text and revisions to all
11 six of the schedules contained in Mr. Rothschild's Second Revised Testimony. In
12 addition, Mr. Rothschild included a seventh schedule to his testimony, which relates to
13 the New Hampshire Division of Northern Utilities.

14
15 **Q. IN YOUR VIEW, WHAT ARE THE MORE SIGNIFICANT CHANGES?**

16 **A.** I believe that there are three primary changes associated with Mr. Rothschild's Third
17 Revised Testimony: (1) the inclusion of gas inventory balances in the cases of Northern
18 Utilities and EnergyNorth for Mr. Rothschild's Decision Tree analysis; (2) the
19 introduction of a new standard by which Mr. Rothschild would assess the reasonableness
20 of short-term debt balances; and (3) the introduction of the Commission's decision in
21 Order No. 24,875. In addition, Mr. Rothschild has made various additions to the text of
22 his Second Revised Testimony, corrections to the schedules to his Second Revised

1 Testimony, and has included a separate analysis that is meant to represent the New
2 Hampshire Division of Northern Utilities.⁷

3
4 **I. Inclusion of Gas Inventory Balances**

5 **Q. PLEASE DISCUSS THE INCLUSION OF GAS INVENTORY BALANCES IN**
6 **THE CASES OF ENERGYNORTH AND NORTHERN UTILITIES.**

7 A. In his Second Revised Testimony, Mr. Rothschild did not include gas inventory balances
8 as a use for short term debt. The Third Revised Testimony, however, now includes those
9 balances as a "Usage of ST-Debt" for both Northern Utilities and EnergyNorth.⁸ As
10 such, Mr. Rothschild's analysis now deducts gas inventory balances from the amount of
11 outstanding short-term debt when determining whether there is a surplus or deficit of
12 outstanding short-term debt that would be applied to supply-related working capital.

13
14 **Q. DOES THE INCLUSION OF GAS INVENTORY BALANCES IN HIS ANALYSIS**
15 **CHANGE MR. ROTHSCHILD'S CONCLUSIONS?**

16 A. No. The inclusion of gas inventory balances in Mr. Rothschild's analysis substantially
17 reduces the amount of outstanding short-term debt that is applied to supply-related

⁷ While the various changes to the text and schedules of Mr. Rothschild's testimony are substantial in number, e.g., changes to the months used in the analysis (in the case of Granite State) and corrections to data in which CWIP earning AFUDC was substituted for total CWIP balances (in the cases of EnergyNorth, PSNH, and Unitil), addressing all of those changes individually would unnecessarily complicate my Supplemental Testimony, and thus I have not done that herein. In addition, I have also not addressed Mr. Rothschild's new analysis of Northern Utilities' New Hampshire Division since there is only one data point that is utilized in the analysis, and for the reasons described in my Direct Testimony in this proceeding and my Supplemental Testimony herein, I do not believe that a single data point provides any meaningful insight or useful information regarding the financing requirements of a utility.

⁸ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, JAR Schedule 2 – 11/6/08; JAR Schedule 5a – 11/6/08; JAR Schedule 5b – 11/6/08.

working capital, but this fact does not change Mr. Rothschild's conclusions. In the case of EnergyNorth, Mr. Rothschild has determined that there remained a "surplus" of short-term debt in each calendar quarter,⁹ leading him to conclude that the short-term debt rate is an appropriate measure for calculating utilities' supply-related working capital carrying cost.¹⁰

In the case of the combined Northern Utilities operations (*i.e.*, New Hampshire and Maine), the inclusion of gas supply inventories significantly reduced the "surplus" of short-term debt outstanding such that, as shown in Table 1 below, for the June 30, 2007 data point relied upon by Mr. Rothschild, Northern Utilities' outstanding short-term debt was insufficient to meet CWIP and rate base by a margin of \$10.18 million for that date.¹¹ That change is significant considering that Mr. Rothschild's Second Revised Testimony reported a surplus of \$7.22 million for June 30, 2007 (*i.e.*, a change of \$17.4 million).¹²

Table 1: Northern Utilities' Change in Net Short Term Debt with Inclusion of Gas Inventory Balances

Description	June 30, 2007	Sept. 30, 2007	Source
3rd Rev'd. Testimony	\$ (10,247,000)	\$ 295,000	JAR Schedule 5b -- 11/6/08
2nd Rev'd. Testimony	\$ 7,218,000	\$ 23,763,000	JAR Schedule 5
Change	\$ (17,465,000)	\$(23,468,000)	
% Change	-242%	-99%	

⁹ As discussed in Section IV, Mr. Rothschild continues to use the month-end short-term debt balance (*i.e.*, a single day) as the measure of short-term debt outstanding.

¹⁰ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 14.

¹¹ *Id.* at 20. *See, also*, JAR Schedule 5b -- 11/6/08.

¹² New Hampshire Public Utilities Commission, DG 07-072, Second Revised Testimony of James A. Rothschild, July 14, 2008, Schedule 5.

1 Similarly, the Third Revised Testimony now reports a short-term debt “surplus” of
2 \$295,000 as of September 30, 2007¹³ whereas the Second Revised Testimony reported a
3 “surplus” of \$23.76 million¹⁴ (*i.e.*, a change of approximately \$24 million). Thus, the
4 introduction of gas supply inventory balances for Northern Utilities produces changes of
5 approximately \$17 million and \$23 million for his June and September 2007 data points,
6 respectively. Those material changes notwithstanding, Mr. Rothschild continues to
7 support the Decision Tree as an appropriate analytical tool.
8

9 **2. Introduction of a New Standard for Assessing Short-term Debt Levels**

10 **Q. PLEASE DESCRIBE THE STANDARD FOR ASSESSING SHORT-TERM DEBT**
11 **LEVELS THAT WAS INTRODUCED IN THE THIRD REVISED TESTIMONY.**

12 **A.** In the Second Revised Testimony, Mr. Rothschild determined whether the Companies
13 “properly avail[ed]”¹⁵ themselves of short-term debt by reference to: (1) the calculated
14 “surplus” or “deficit” of short-term debt relative to its “usages” as set forth in the
15 schedules to that testimony, (2) the “economics” of upward-sloping yield curves (*i.e.*, in
16 general, short-term interest rates are lower than long-term interest rates);¹⁶ (3) the
17 variation in supply-related working capital balances; and (4) the short-term borrowing
18 capacity as defined by Commission-imposed limits.¹⁷ In essence, Mr. Rothschild’s

¹³ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 20 and JAR Schedule 5b – 11/6/08.

¹⁴ New Hampshire Public Utilities Commission, DG 07-072, Second Revised Testimony of James A. Rothschild, July 14, 2008, Schedule 5.

¹⁵ *Id.* at 11.

¹⁶ *Id.* at 12.

¹⁷ *Id.* at 23.

1 approach stated that if working capital balances vary, given that short-term interest rates
2 tend to be lower than long-term interest rates, the Companies should borrow up to their
3 short-term debt borrowing limits to the extent indicated by the Decision Tree. In the
4 Third Revised Testimony, Mr. Rothschild introduces a fifth criterion, which is the
5 amount of short-term debt outstanding relative to the average balance of short-term debt
6 outstanding on the last days of the four calendar quarters.

7
8 **Q. WHERE AND HOW DOES MR. ROTHSCHILD INTRODUCE THAT NEW**
9 **STANDARD?**

10 A. As noted earlier, by including gas inventory balances as a use of short-term debt, Mr.
11 Rothschild's assessment of Northern Utilities' combined operations now determines that
12 in June 2007, rather than having a \$7.22 million "surplus" of short-term debt that could
13 be utilized to fund supply-related working capital, the Company had a \$10.18 million
14 deficit, *i.e.*, not enough short-term debt outstanding to fund supply-related working
15 capital. Mr. Rothschild "explains" that deficit by suggesting that the Company's \$9.6
16 million short term debt balance was "substantially less than the average balance for
17 2007."¹⁸ It appears, therefore, that the Third Revised Testimony now considers that the
18 average balance of short-term debt on the last days of March, June, September and
19 December to be a measure of the reasonableness of short-term debt balances at any time
20 during the year.

21

¹⁸ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 18.

1 3. *Introduction of Commission Order No. 24,824*

2 Q. PLEASE DISCUSS THE COMMISSION ORDER INTRODUCED BY MR.
3 ROTHSCHILD IN HIS THIRD REVISED TESTIMONY.

4 A. On page 23 of his Third Revised Testimony, Mr. Rothschild notes that on July 23, 2008,
5 the Commission approved Unitil's request to increase its short-term borrowing limit.
6 This additional information appears to be meant to indicate that the Company's short-
7 term borrowing capacity is higher now than it was in 2007.

8
9 Q. WAS THAT INFORMATION AVAILABLE AT THE TIME OF MR.
10 ROTHSCHILD'S REBUTTAL TESTIMONY?

11 A. Yes, it was. Mr. Rothschild filed his Rebuttal Testimony in this proceeding on October
12 3, 2008. While Mr. Rothschild chose to introduce Order No. 24,875 in his Third Revised
13 Testimony, there was at least one other order issued by the Commission in 2008 that is
14 relevant to the Decision Tree analysis. As discussed more fully in Section IV, the effect
15 of that order produces a substantial change in the Decision Tree analysis.

16
17 IV. MISAPPLICATIONS IN THE THIRD REVISED TESTIMONY

18 Q. PLEASE SUMMARIZE THE ADDITIONAL AND CONTINUING
19 MISAPPLICATIONS CONTAINED IN THE THIRD REVISED TESTIMONY.

20 A. As discussed further below, there are five key aspects of the Third Revised Testimony
21 with which I disagree. Those areas include: (1) the introduction of Order No. 24,875
22 while failing to consider other relevant Commission orders also issued during calendar
23 year 2008; (2) the logic by which the Decision Tree analysis deducts certain elements

1 from short-term debt; (3) the assumption that month-end balances reasonably represent
2 daily short-term debt balances over the course of a month; (4) the assumption that
3 average annual short-term debt balances can be used as a basis for assessing the
4 reasonableness of short-term debt balances at the end of a given calendar quarter; and (5)
5 the failure to consider actual capital market conditions in assessing the reasonableness of
6 short and long-term financing decisions.
7

8 **1. Failure to Consider Actual Short-Term Financing Requirements**

9 **Q. YOU NOTED EARLIER THAT IN THE THIRD REVISED TESTIMONY MR.**
10 **ROTHSCHILD INTRODUCED THE COMMISSION'S DECISION IN ORDER**
11 **NO. 24,875. HAVE THERE BEEN OTHER COMMISSION DECISIONS ISSUED**
12 **IN 2008 THAT ALSO WOULD BE RELEVANT TO MR. ROTHSCCHILD'S**
13 **ANALYSIS?**

14 **A.** Yes, I believe so. In Order No. 24,824, the Commission approved a settlement that
15 granted EnergyNorth the right to increase its short-term borrowing limit for costs not
16 related to gas inventories to 20% of its projected net plant. The order found, among other
17 things, that the increased limit was needed to fund ongoing environmental remediation
18 costs, and specifically prevented the Company from reducing or paying down existing
19 long-term debt with short-term borrowings.¹⁹ In addition, the Commission approved a
20 short-term debt limit related to EnergyNorth's gas inventory costs that is equal to 30% of

¹⁹ New Hampshire Public Utilities Commission, EnergyNorth Natural Gas, Order No. 24,824, February 29, 2008, p. 12. Please note that this order was cited in footnote 27 to Mr. Hevert's Direct Testimony. (*See*, New Hampshire Public Utilities Commission, DG 07-072, Direct Testimony of Robert B. Hevert, August 29, 2008, p. 20).

1 its total gas cost. Thus, it is apparent that the Commission (and Staff) recognized that the
2 Company's day-to-day short-term borrowing needs (as a percentage of net plant) could
3 far exceed the 3.70% assumed by Mr. Rothschild.
4

5 **Q. DID MR. ROTHSCILD'S BALANCE OF REMAINING SHORT-TERM DEBT**
6 **OUTSTANDING CHANGE FOR ENERGYNORTH SIMILAR TO THE**
7 **CHANGES SHOWN IN TABLE 1 FOR NORTHERN UTILITIES?**

8 **A.** Yes. As a preliminary matter, just as Order No. 24,824 established separate limits for gas
9 inventory cost and non-gas inventory cost-related borrowing, the data source relied upon
10 by Mr. Rothschild in the analyses contained in both the Second and Third Revised
11 Testimonies provides the short-term debt balances relating to both gas inventory costs
12 and non-gas inventory cost-related borrowings.²⁰ Since the Second Revised Testimony
13 included the entire short-term debt balance (*i.e.*, including both gas inventory cost and
14 non-gas inventory cost-related debt) but did not include gas supply inventories as a use of
15 debt, the apparent "surplus" of short-term debt relative to supply-related working capital
16 was substantially overstated. As a consequence, as shown in Table 2, Mr. Rothschild's
17 purported short-term debt "surplus" for EnergyNorth fell considerably from the Second
18 Revised Testimony to the Third Revised Testimony.
19

²⁰ See, New Hampshire Public Utilities Commission, DG 07-072, Response of EnergyNorth to Data Request No. Staff 1-8, Attachment Staff 1-8(a) through 8(c).

Table 2: EnergyNorth Change in Net Short Term Debt with Inclusion of Gas Inventory Balances

Description	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
3rd Rev'd. Testimony	\$ 11,028,000	\$ 19,023,000	\$ 15,731,000	\$ 22,266,000
2nd Rev'd. Testimony	\$ 25,397,000	\$ 23,177,000	\$ 23,251,000	\$ 43,652,000
Change	\$ (14,369,000)	\$ (4,154,000)	\$ (7,520,000)	\$ (21,386,000)
% Change	-57%	-18%	-32%	-49%

While Mr. Rothschild's change for EnergyNorth was not as dramatic as the change he made to Northern Utilities, these revisions nonetheless are substantial and once again call into question the reliability of the Decision Tree.

Q. ARE THERE OTHER IMPLICATIONS OF ORDER NO. 24,824 THAT SHOULD BE CONSIDERED?

A. Yes. As noted earlier, Mr. Rothschild's analysis assumes that the amount of rate base funded by short-term debt is defined by the 3.70% currently assumed for rate making purposes. As discussed above, however, Order No. 24,824 increased the Company's short-term borrowing limit for non-gas inventory costs to an amount equal to 20% of projected net assets and, by noting such imperative expenditures as environmental remediation costs, the Commission rightfully recognized the Company's daily borrowing needs. Therefore, it would be reasonable to assume that the appropriate percentage of short-term debt in the rate base for purposes of determining the carrying cost for supply-related working capital could be as much as 20% rather than the 3.70% assumed by Mr. Rothschild.²¹ Inasmuch as Mr. Rothschild believes that his "Estimated Rate Base"

²¹ See, New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, JAR Schedule 2 – 11/6/08, line 2.1.6.

calculation is a reasonable estimate of the Company's rate base, it is reasonable to base Mr. Rothschild's Decision Tree calculation on the 20% threshold set by the Commission in Order No. 24,824.

Q. DID YOU PERFORM ANY ANALYSES TO DETERMINE THE EFFECT OF THE BORROWING LIMITS ESTABLISHED FOR ENERGYNORTH IN ORDER NO. 24,824?

A. Yes. I first replicated Mr. Rothschild's JAR Schedule 2 – 11/6/08. I then substituted the 3.70% short-term debt component of rate base assumed by Mr. Rothschild with the 20% limit established in Order No. 24,824. Not surprisingly, as shown in Table 3 below, the results are entirely different. Rather than having a "surplus" of short-term debt after allocating outstanding short-term debt to CWIP earning AFUDC and rate base in each of the four calendar quarters, the analysis shows consistent and significant short-term debt deficits.

Table 3: EnergyNorth Change in Net Short Term Debt with Inclusion of Gas Inventory Balances and Assuming a 20% Short-Term Debt Requirement

Description	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
3rd Rev'd. Testimony	\$ 11,028,000	\$ 19,023,000	\$ 15,731,000	\$ 22,266,000
3rd Rev'd. Testimony Assuming STD at 20% of Estimated Rate Base	\$ (26,604,000)	\$(19,294,000)	\$ (23,107,000)	\$(18,127,000)
Change	\$ (37,632,000)	\$(38,317,000)	\$ (38,838,000)	\$(40,393,000)

1 **Q. DID YOU MAKE ANY OTHER REVISIONS TO THAT ANALYSIS?**

2 A. Yes, I did. As Mr. Rothschild pointed out in his response to Request PSNH 1-16, "...rate
3 base is only determined in the context of a rate case", and "...while a proper spot analysis
4 of rate base cannot be higher than capitalization, capitalization can be higher than rate
5 base." To ensure, therefore, that my analysis was not biased by the fact that Mr.
6 Rothschild's "Estimated Rate Base" was not equal to the actual net assets as described in
7 Order No. 24,824, I substituted the Net Utility Plant included in the Company's current
8 rate filing for Mr. Rothschild's "Estimated Rate Base" amount.²² Even when using the
9 Net Utility Plant, that change does not alter the conclusion: the amount of short-term
10 debt outstanding at the end of each of the four calendar quarters for 2007 remains
11 insufficient to cover EnergyNorth's supply-related working capital.

12
13 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THOSE ANALYSES?**

14 A. While the amount of short-term debt outstanding for EnergyNorth is not likely to be 20%
15 of its net plant, the analysis provided in Table 3 was conducted in order to highlight that
16 by simply changing the basis upon which one might reasonably assess the amount of
17 daily short-term debt used to fund rate base, the results and conclusions of Mr.
18 Rothschild's Decision Tree would be significantly altered. Specifically for EnergyNorth,
19 given the Commission's decision in Order No. 24,824, it is quite apparent that there is not
20 sufficient short-term debt to cover supply-related working capital, even if the Company's

²² New Hampshire Public Utilities Commission, DG 08-009, EnergyNorth Natural Gas, Inc., Exhibit No. EN 2-4, Page 1 of 4.

1 net plant (as opposed to Mr. Rothschild's "Estimated Rate Base") is used as the basis for
2 that computation.

3
4 This analysis also further demonstrates the inherent instability in the Decision Tree
5 approach as it applies to all utilities, as well as its susceptibility to changes in inputs that
6 would completely reverse the conclusion. As noted in my Direct Testimony, the
7 financing decisions of a utility are made on a daily basis, not on the day the quarter ends
8 as Mr. Rothschild's Decision Tree analysis suggests. As Tables 1 and 2 above
9 demonstrate with regard to Northern Utilities and EnergyNorth, respectively, the changes
10 made by Mr. Rothschild between the Second and Third Revised Testimonies dramatically
11 change the results of the calculations underlying the Decision Tree. Further, as Table 3
12 demonstrates, those differences produce an entirely different conclusion. These issues,
13 coupled with the other flaws in Mr. Rothschild's analysis discussed below, highlight the
14 fact that the Decision Tree is not an appropriate method for establishing the appropriate
15 carrying cost for supply-related working capital.

16
17 **2. *Logic Underlying the Decision Tree Analysis***

18 **Q. PLEASE BRIEFLY DESCRIBE THE BASIS UPON WHICH MR. ROTHSCHILD**
19 **DEVELOPED HIS DECISION TREE ANALYSIS.**

20 **A.** As Mr. Rothschild discusses in both the Second and Third Revised Testimonies, his
21 analyses are based on the "FERC" method of calculating AFUDC on CWIP. As Mr.
22 Rothschild explains:

23 The FERC has a policy of first allocating all available short-term
24 debt to CWIP that is eligible to earn the AFUDC rate. The way the

1 FERC method accomplishes this allocation is to set the AFUDC
2 rate equal to the cost of short-term debt so long as the short-term
3 debt balance is equal to or greater than the balance of CWIP
4 eligible for AFUDC. If the balance of CWIP eligible for AFUDC
5 is greater than the short-term debt balance, then the FERC uses the
6 overall cost of capital for the AFUDC rate applied to the balance of
7 CWIP eligible for AFUDC in excess of the short-term debt
8 balance.²³

9 If Mr. Rothschild's intent is to be consistent with the "FERC method" in determining
10 whether there is sufficient short-term debt to cover the balance of supply-related working
11 capital, the Decision Tree would first deduct CWIP eligible for AFUDC, then deduct
12 short-term debt in rate base, followed by (as appropriate) gas supply inventories.
13 Assuming for the sake of discussion that the Decision Tree is an appropriate approach,
14 any residual amount would be allocated to supply-related working capital. Again,
15 consistent with the "FERC method", to the extent that there is not sufficient short-term
16 debt to cover the balance of supply-related working capital, the pre-tax rate of return
17 would apply.²⁴

18
19 **Q. IS THE LOGIC OF THE DECISION TREE CONTAINED IN THE SCHEDULES**
20 **TO MR. ROTHSCHILD'S SECOND AND THIRD REVISED TESTIMONIES**
21 **CONSISTENT WITH THAT APPROACH?**

22 **A.** No, it is not. In both sets of testimony, Mr. Rothschild's analyses deduct the sum of (1)
23 CWIP eligible for AFUDC and (2) short-term debt supporting rate base *before* applying
24 the remaining outstanding short-term debt balance to gas supply inventories (if any) and

²³ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 18.

1 supply-related working capital. That is, he does not first deduct CWIP eligible for
2 AFUDC *followed by* a subsequent deduction for short-term debt supporting rate base
3 before continuing the calculation.
4

5 **Q. IS THE ORDER IN WHICH THOSE DEDUCTIONS ARE MADE IMPORTANT?**

6 A. Yes, it is. A case-in-point is the analysis of Unitil provided in JAR Schedule 6 – 11/6/08
7 of Mr. Rothschild’s Third Revised Testimony. As with the other Companies, Mr.
8 Rothschild calculates the “Total ST-Debt Already Accounted For In Rate Making
9 Process” by subtracting the sum of (1) the estimated short-term debt accounted for to
10 support rate base, and (2) the amount of CWIP earning AFUDC. However, FPC Order
11 561, which is the basis of the “FERC” method for calculating AFUDC on CWIP,
12 considers only the amount of CWIP eligible for AFUDC, not the sum of CWIP *and* short-
13 term debt supporting rate base. As shown in Table 4 below, if Mr. Rothschild were to
14 first deduct CWIP from the amount of Unitil’s short-term debt outstanding, he would find
15 that in three of the four calendar quarters of 2007 included in his schedule, there is not a
16 sufficient amount of short-term debt outstanding to cover first CWIP earning AFUDC
17 and then short-term debt supporting rate base. In fact, in two of the four quarters, there
18 was not even sufficient short-term debt outstanding to cover the balance of CWIP earning
19 AFUDC.
20
21

²⁴ While that is not how Mr. Rothschild conducts his analysis, this approach is consistent with the alternative approach included in Mr. Hevert’s Direct Testimony. *See*, New Hampshire Public Utilities Commission, DG 07-072, Direct Testimony of Robert B. Hevert, August 29, 2008, p. 25.

Table 4: Unifil Corp. Calculation of Remaining Short-Term Debt Balances²⁵

Description	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
Short-Term Debt Outstanding	\$ 12,102,000	\$ 5,876,000	\$ 9,187,000	\$ 10,188,000
Less: CWIP Earning AFUDC	<u>\$ (6,901,000)</u>	<u>\$ (9,948,000)</u>	<u>\$ (10,500,000)</u>	<u>\$ (9,846,000)</u>
Subtotal	\$ 5,201,000	\$ (4,072,000)	\$ (1,313,000)	\$ 342,000
Less: Short-Term	<u>\$ (1,978,000)</u>	<u>\$ (1,998,000)</u>	<u>\$ (2,060,000)</u>	<u>\$ (2,085,000)</u>
Remaining S-T Debt Balance	\$ 3,223,000	\$ (6,070,000)	\$ (3,373,000)	\$ (1,743,000)

Q. DOES MR. ROTHSCHILD'S THIRD REVISED TESTIMONY RECOGNIZE THIS OUTCOME?

A. No, it does not. Importantly, while Mr. Rothschild recognizes that the amount of short-term debt outstanding is less than the sum of (1) CWIP earning AFUDC, (2) short-term debt in rate base, and (3) supply related working capital, he asserts that the Company was "not using enough short-term debt."²⁶ Based on that assertion, Mr. Rothschild essentially creates a hypothetical level of short-term debt outstanding such that there would be a sufficient balance to cover supply-related working capital. Here again, Mr. Rothschild does not discuss the practical standards by which he arrives at the conclusion that the Company should have borrowed more short-term debt; he simply states that the "cost of short-term debt [should be used] for supply-related working capital".²⁷

²⁵ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, JAR Schedule 6 – 11/6/08.

²⁶ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, p. 22.

²⁷ *Id.* at 24. [clarification added]

1 Q. DO YOU BELIEVE THAT MR. ROTHSCHILD'S RECOMMENDED
2 HYPOTHETICAL INCREASE IN THE SHORT-TERM DEBT BALANCE IN
3 THIS INSTANCE CONTRAVENES COMMISSION POLICY?

4 A. Yes. By simply stating that Unitil is "not using enough short-term debt" without
5 providing any support for the validity of this conclusion, Mr. Rothschild has arbitrarily
6 created a hypothetical short-term debt balance for Unitil that "automatically" is sufficient
7 to cover both supply-related costs and base-rate related costs. In this instance, Mr.
8 Rothschild has made a singular change to supply-related costs, while ignoring the off-
9 setting change to base rate-related costs, and such an approach certainly meets Mr.
10 Rothschild's own definition of single-issue ratemaking:

11 Single issue ratemaking occurs when rates are modified base on
12 only one of many factors that normally determine a company's
13 regulated revenue requirements. The concern, which is generally
14 expressed in the context of base rates, is that changing rates based
15 on only one factor may ignore offsetting changes in other factors.²⁸
16

17 Thus, in addition to its propensity to provide unreliable results, the Decision Tree
18 likewise is susceptible to producing results that contravene the Commission's long-
19 standing prohibition against single-issue ratemaking.
20

21 3. *Mistaken Assumption that Month-End Short-Term Debt Balances are Representative*
22 *of Daily Short-Term Debt Balances*

23 Q. DOES MR. ROTHSCHILD CONTINUE TO USE MONTH-END SHORT-TERM
24 DEBT BALANCES IN HIS THIRD REVISED TESTIMONY AS THE MEASURE

²⁸ New Hampshire Public Utilities Commission, DG 07-072, Rebuttal Testimony of James A. Rothschild, October 3, 2008, p. 4.

1 **OF SHORT-TERM DEBT OUTSTANDING FOR AN ENTIRE CALENDAR**
2 **QUARTER?**

3 A. Yes, he does. As with the prior versions of his testimony, Mr. Rothschild has assumed
4 that an outstanding short-term debt balance for a single day at the end of each quarter is
5 representative of the amount of short-term debt outstanding for each Company over an
6 entire fiscal or calendar quarter.

7
8 **Q. HAS MR. ROTHSCHILD RATIONALIZED THIS APPROACH?**

9 A. Yes. In his response to a data request in this proceeding, Mr. Rothschild stated that:

10 Technically, daily balances could be said to be more accurate. However,
11 on numerous occasions, Mr. Rothschild has made detailed computations
12 that have compared the results of daily averages with month-end averages.
13 In each and every case in which he has made the comparison between
14 month average results and daily results, he has found the differences to be
15 negligible.²⁹
16

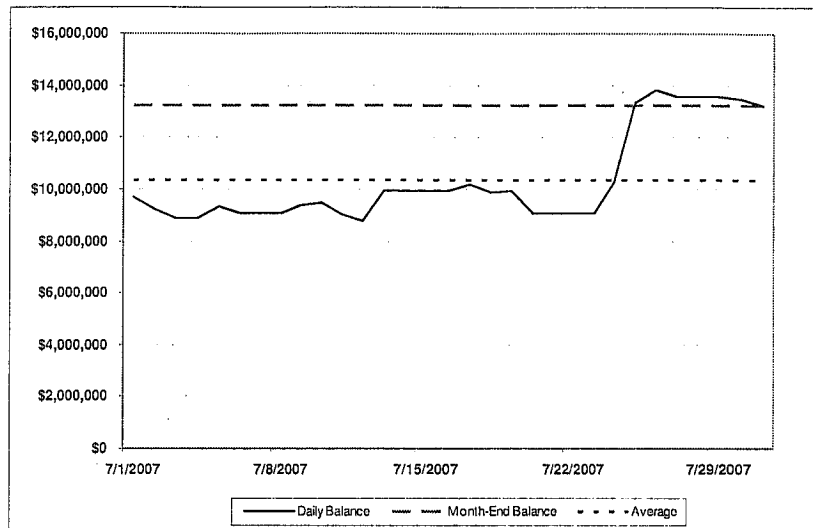
17 **Q. DO YOU AGREE THAT THE DIFFERENCE BETWEEN AVERAGE**
18 **BALANCES AND MONTH-END BALANCES IS "NEGLIGIBLE"?**

19 A. No, I do not. A simple review of daily short-term debt balances demonstrates that there
20 is considerable variance within a given month, and that the difference between month-
21 end and average short-term debt balances often are substantial. Figures 1, 2, and 3 below
22 provide the daily and average short-term debt balances for Northern Utilities (combined
23 New Hampshire and Maine operations) for the months of July, August and September
24 2007. As these figures plainly demonstrate, the month-end balance of short-term debt is

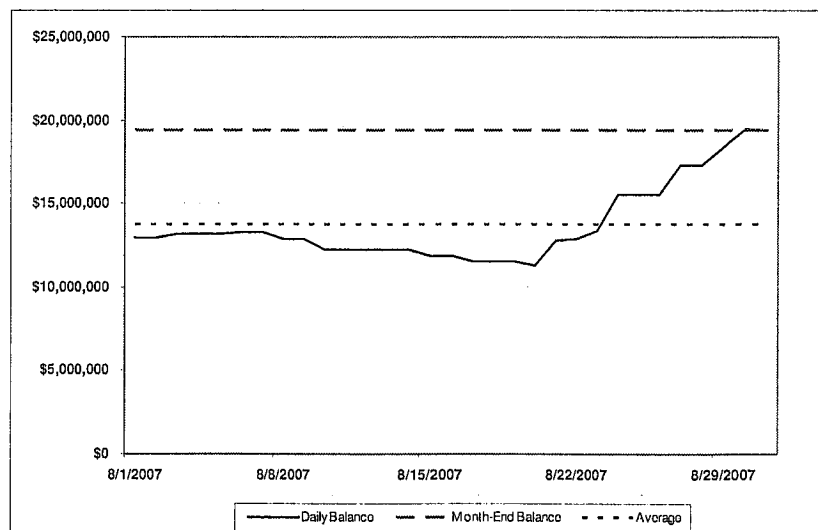
²⁹ New Hampshire Public Utilities Commission, DG 07-072, Response of James A. Rothschild to Data Request PSNH 1-5.

1 at or near the maximum for the month, and the average monthly balance can be as much
2 as 29% below the month-end balance.³⁰

3
4 **Figure 1: Northern Utilities' Daily, Month-End And Average Monthly Short-**
5 **Term Debt Balances: July 2007**



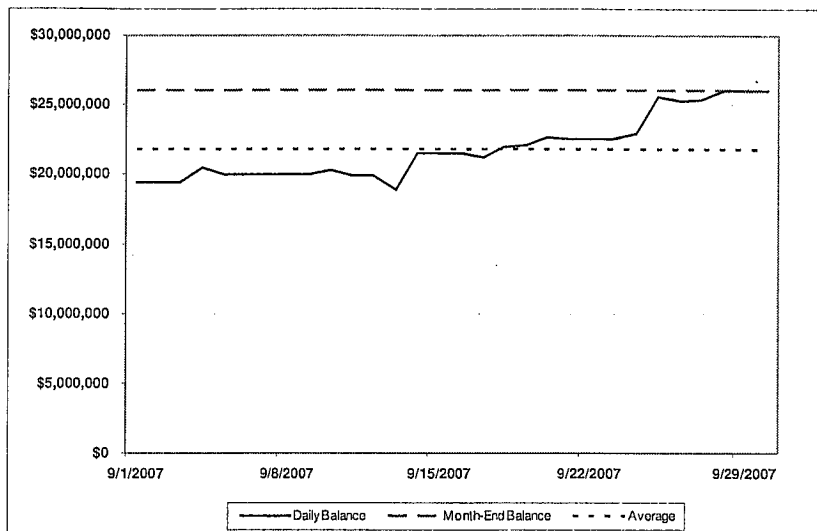
6
7 **Figure 2: Northern Utilities' Daily, Month-End And Average Monthly Short-**
8 **Term Debt Balances: August 2007**



9

³⁰ Source: Company-provided data.

Figure 3: Northern Utilities' Daily, Month-End And Average Monthly Short-Term Debt Balances: September 2007



Furthermore, Figures 1, 2 and 3 also demonstrate that the end of calendar quarter balance used by Mr. Rothschild for his analysis is also not representative of the actual short-term debt balances outstanding over the quarter. Specifically, for Northern Utilities' combined New Hampshire and Maine operations, Mr. Rothschild relied on the short-term debt balance outstanding of \$26,037,000 for the quarter ending September 30, 2007.³¹ However, as shown in Figures 1, 2 and 3 above, Northern Utilities' short-term debt balance outstanding averaged approximately \$10.4 million in July 2007, \$13.8 million in August 2007, and approximately \$21.8 million in September 2007, or an average outstanding short-term debt balance across the third quarter of 2007 for Northern Utilities of approximately \$15.3 million. Clearly, not only is there significant day-to-day variation in the short-term debt balances within the month, but also within the quarter,

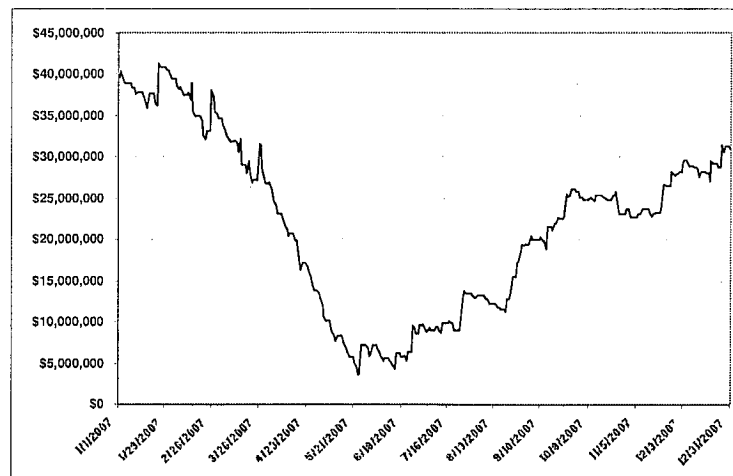
³¹ See, New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, JAR Schedule 5(b) – 11/6/08, line 1.

1 and all of those balances vary significantly from the end of quarter outstanding short-term
2 debt balance of approximately \$26.0 million relied upon by Mr. Rothschild in his
3 analysis.

4
5 **Q. IS THIS VARIATION IN THE DAILY OUTSTANDING SHORT-TERM DEBT**
6 **BALANCE RELATIVE TO THE END OF QUARTER OUTSTANDING SHORT-**
7 **TERM DEBT BALANCE SIMILARLY EXPERIENCED IN THE OTHER**
8 **MONTHS AND QUARTERS IN 2007?**

9 **A.** Yes. The variation between the end of quarter outstanding short-term debt balances
10 relative to the daily outstanding short-term debt balances is equally applicable in all other
11 months and quarters of the year. As shown in Figure 4, the daily outstanding short-term
12 debt balance for Northern Utilities' combined operations in 2007 ranged between \$3.7
13 million and \$41.3 million, or annual range of \$37.6 million.

14 **Figure 4: Northern Utilities' Daily Outstanding Short-Term Debt Balances for**
15 **Calendar Year 2007**



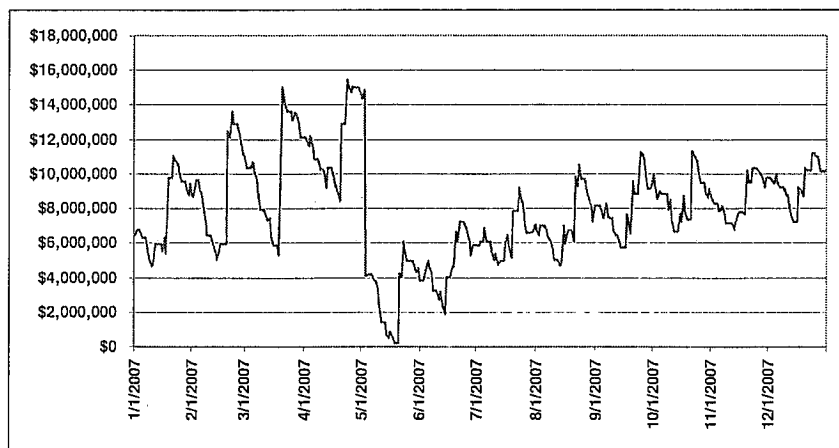
16
17 This wide range in outstanding daily short-term debt is not surprising since, as discussed
18 in my Direct Testimony in this proceeding, there are a myriad of factors that result in the

1 balances of short-term debt outstanding on any given day.³² As demonstrated by Figures
2 1, 2 and 3 above, Mr. Rothschild's analysis of simply using a single data point as
3 representative of an entire quarter and four data points as representative of the entire year
4 is far too simplistic and does not account for these numerous factors influencing short-
5 term debt requirements.

6
7 **Q. DO THE DAILY SHORT TERM DEBT BALANCES SHOW A SIMILAR**
8 **DEGREE OF VARIABILITY FOR ELECTRIC UTILITIES?**

9 **A.** Yes. As shown in Figure 5, Until's daily outstanding short-term debt balance also varied
10 considerably day-to-day and month-to-month for calendar year 2007. It should be noted
11 that in May 2007, Until paid down its outstanding short-term debt balance with long-
12 term equity, thus explaining the significant drop that is shown in Figure 5.

13 **Figure 5: Unutil's Daily Outstanding Short-Term Debt Balances for Calendar**
14 **Year 2007**



15

³² New Hampshire Public Utilities Commission, DG 07-072, Direct Testimony of Robert B. Hevert, August 29, 2008, pp. 19-20.

1 This point is important because it again demonstrates that short-term debt and long-term
2 financings are inextricably linked in terms of the financing decisions of a utility and that
3 one element such as supply-related working capital is not individually or specifically
4 financed in isolation or without regard to the other financing needs of the utility.
5 Furthermore, it again highlights that Mr. Rothschild's Decision Tree is too simplistic in
6 that the use of four data points as representative of the outstanding short-term debt
7 balances for a year fails to take into account these daily financing issues, including the
8 conversion of short-term debt to long-term debt.

9
10 **4. *Mistaken Assumption That Annual Average Short-Term Debt Balances Can Be Used***
11 ***to Assess the Reasonableness of Quarter-End Short-Term Debt Balances***

12 **Q. EARLIER YOU NOTED THAT MR. ROTHSCHILD INTRODUCED A NEW**
13 **CRITERION THAT HE USED TO DETERMINE WHETHER THE SHORT-**
14 **TERM DEBT BALANCES AT THE END OF A QUARTER WERE "HIGH**
15 **ENOUGH." DO YOU BELIEVE THAT THIS CRITERION IS APPROPRIATE?**

16 **A.** As noted earlier, the Third Revised Testimony introduces a new standard for assessing
17 the reasonableness of short-term debt balances at the end of a given calendar quarter. In
18 his assessment of Northern Utilities, Mr. Rothschild reasoned that, since the Company's
19 short-term debt balance at the end of June 2007 was less than the average amount
20 outstanding for the year based on four data points, the Company "could easily have
21 utilized enough short-term debt to cover its supply-related working capital."³³ Thus, it
22 appears that Mr. Rothschild is of the view that the average annual balance of short-term

³³ New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, p. 18.

1 debt³⁴ should be used as a standard by which the level of short-term debt in any given
2 quarter can be measured.
3

4 **Q. DO YOU AGREE WITH MR. ROTHSCHILD'S NEW CRITERION FOR**
5 **ASSESSING THE REASONABLENESS OF SHORT-TERM DEBT BALANCES?**

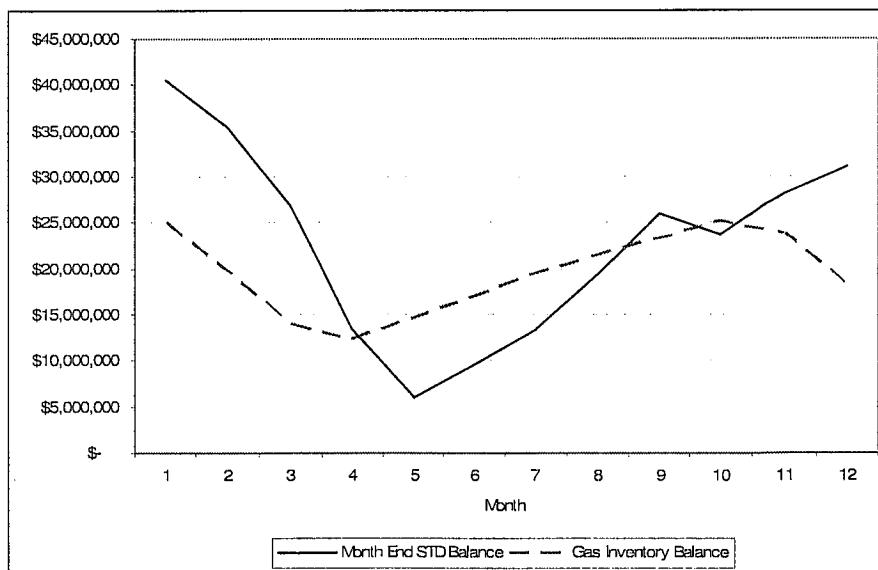
6 A. No, I do not. Mr. Rothschild's new criterion does not comport with the Companies'
7 actual operations in two critical aspects, and thus provides no reasonable basis as a means
8 of concluding that the short-term debt rate should be utilized for purposes of determining
9 the Companies' supply-related working capital allowance. First, short-term debt balances
10 for the gas companies are strongly related to gas inventory balances that are operationally
11 cyclical, as well as the commodity cost of procuring that inventory that fluctuates on a
12 daily basis. To assess the end of June short-term debt balance by reference to the end of
13 March, September and December short-term debt balances as Mr. Rothschild has done
14 assumes that the ending June gas inventory balance is related to the ending gas inventory
15 balances of these months. There is, of course, no basis for such an assumption. Second,
16 Mr. Rothschild's stated position that differences between month-end average monthly
17 balances and daily balances are "negligible" is inconsistent with actual Company data.
18 Rather, the short-term debt balances vary significantly within a month and across a year,
19 thus contradicting Mr. Rothschild's assumption and the validity of simply using quarter-
20 end short-term debt balances for purposes of his analysis and conclusions.
21

³⁴ Here again, Mr. Rothschild's use of "annual average" means the average balance on the last days of March, June, September and December, 2007, not the average of the company's daily balances of short-term debt throughout an entire year.

1 Q. HAVE YOU TESTED THE VALIDITY OF MR. ROTHSCHILD'S NEW
2 CRITERION WITH ACTUAL DATA FROM NORTHERN UTILITIES?

3 A. Yes. As noted above, Northern Utilities' short-term debt balances are related to the
4 amount of gas inventory procured and the commodity cost of procuring that inventory.
5 As shown in Figure 6, the amount of short-term debt outstanding is clearly related to the
6 balance of gas supply inventories, even when only month-end data as opposed to daily
7 data is utilized. By asserting that the balance of short-term debt at the end of one quarter
8 can be assessed by reference to the balance at the end of the other three quarters, Mr.
9 Rothschild is making the assumption that the balance of gas inventories in a given quarter
10 is, or should be, equal to the balances of gas inventories in the other three quarters. That
11 assumption, of course, has no basis in theory or practice.

12 **Figure 6: Northern Utilities' Month-End Short-Term Debt and Gas Inventory**
13 **Balances for Calendar Year 2007**



1 5. *Failure to Consider Market Conditions When Assessing Short-Term Debt Balances*

2 **Q. PLEASE SUMMARIZE THE EFFECT OF CAPITAL MARKET CONDITIONS**
3 **ON SHORT AND LONG-TERM FINANCING.**

4 A. As the Commission is fully aware, the U.S. capital markets have experienced significant
5 turmoil in the past few months. While the credit markets have been tightening over the
6 past year due in large part to the fallout in the subprime mortgage lending industry, recent
7 events have greatly increased the momentum of the crisis, which has also spread to the
8 equity market. This growing global financial crisis and its effect on lenders and investors
9 has resulted in high profile bankruptcies, bank mergers, significant government
10 intervention in capital markets, and a highly volatile stock market. The current state of
11 the capital markets is very much in flux, and those companies without preexisting and/or
12 contractually obligated sources of liquidity are facing either onerous financing
13 costs/terms or the potential of not being able to access funds at all.

14
15 **Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF THE EFFECTS OF THE**
16 **CREDIT CRISIS ON POTENTIAL BORROWERS?**

17 A. Yes. A significant effect of the existing financial crisis is that borrowing, both short-term
18 and long-term, has been severely tightened, and in certain instances, has completely
19 halted, as recently occurred in the bond and commercial paper markets. For example, on
20 October 7, 2008, the Wall Street Journal reported, “[t]he corporate bond markets are at a
21 standstill.”³⁵ According to the Wall Street Journal, debt issuances for electric, gas, and
22 water utilities decreased by 50% in the third quarter of 2008 as compared to the second

³⁵ The Wall Street Journal, “Long-Term Bond Markets Dry Up,” October 7, 2008.

1 quarter.³⁶ The commercial paper market has also experienced similar difficulties
2 whereby the market has effectively shutdown.³⁷

3
4 For those entities that do have the ability to issue new debt, it is coming at a much higher
5 cost. The credit crisis is affecting even well-rated companies such as We Energies (rated
6 by S&P as BBB+), which on September 25, 2008 secured debt at both a higher cost and a
7 shorter term than planned.³⁸ Similarly, PECO Energy (also rated by S&P as BBB+),
8 which also issued debt at a relatively high cost on September 25, 2008, was concerned
9 prior to that issuance that there might not be a market for its debt.³⁹ AmerenUE (rated
10 BBB- by S&P), Missouri's largest utility, also recently expressed its concern regarding
11 access to capital markets.⁴⁰ In addition, Illinois Power Company (d/b/a AmerenIP)
12 recently announced a private placement of \$400 million of long-term senior secured notes
13 at 9.75%.⁴¹

14
15 **Q. HAS MR. ROTHSCHILD IN HIS THIRD REVISED TESTIMONY**
16 **ACKNOWLEDGED THE EFFECT OF CAPITAL MARKET CONDITIONS ON**
17 **SHORT AND LONG-TERM FINANCING DECISIONS?**

³⁶ The Wall Street Journal, "Utilities' Plans Hit by Credit Markets," October 1, 2008.

³⁷ See, e.g., St. Louis Post Dispatch, "Credit Crisis Hits Home for AmerenUE," October 16, 2008; Associated Press, "Fed to buy commercial paper from mutual funds", October 21, 2008.

³⁸ The Wall Street Journal, "Utilities' Plans Hit by Credit Markets," October 1, 2008.

³⁹ *Id.*

⁴⁰ St. Louis Post Dispatch, "Credit Crisis Hits Home for AmerenUE," October 16, 2008.

⁴¹ Ameren Corporation, Press Release, "Ameren Corporation Announces AmerenIP Refinancing", October 21, 2008.

1 A. No. In none of the testimony that Mr. Rothschild has filed in this proceeding has he
2 acknowledged or addressed the effect of capital market conditions on utilities' financing
3 decisions. The Decision Tree that Mr. Rothschild continues to support in his Third
4 Revised Testimony is not capable of and does not account for the various financing issues
5 that utilities are faced with in the current credit environment. For example, Mr.
6 Rothschild continues to imply in this Third Revised Testimony that the Companies
7 should be utilizing a significant amount or potentially all of the short-term debt available
8 to them in order to fund supply-related working capital requirements.⁴² However, this
9 recommendation by Mr. Rothschild is contradictory to prudent financial practice that
10 suggests that a level of short-term borrowing capacity remain unutilized in order to meet
11 unforeseen and/or emergency financial conditions that require immediate liquidity needs.
12 The need to preserve short-term borrowing capacity is especially applicable considering
13 the current credit market conditions. If the Companies had fully utilized all of their short-
14 term borrowing capacity prior to the existing credit crisis, such a situation could have
15 posed significant financial difficulty, since, as discussed, obtaining debt, particularly
16 short-term debt, has been extremely difficult in the current credit markets. As such, if a
17 utility had fully utilized its short-term borrowing capacity prior to the current credit crisis,
18 that utility would have found itself with little or no ability to access short-term debt and

⁴² See, e.g., New Hampshire Public Utilities Commission, DG 07-072, Third Revised Testimony of James A. Rothschild, November 14, 2008, p. 11. ("Therefore, if the reason no short-term debt is left after assignments to CWIP eligible for AFUDC and rate base is that the company failed to properly avail itself of short-term debt..."); New Hampshire Public Utilities Commission, DG 07-072, Response of James A. Rothschild to Data Request PSNH 1-14. ("Question: If a company has an adequate level of cash flow to meet its supply obligations, why should it go out and borrow short-term debt? Response: Returning excess funds to investors in the form of a dividend or stock repurchase while borrowing a reasonable amount of short-term debt is a far more economical approach.").

1 thus be left with an inability to fund any of its short-term requirements, supply-related or
2 otherwise. This obviously would not have been a good situation for a utility to be in.
3

4 **Q. HAVE UTILITIES BEEN DRAWING DOWN EXISTING CREDIT FACILITIES**
5 **IN ORDER TO PROVIDE A MORE SECURE LEVEL OF SHORT-TERM AND**
6 **LONGER-TERM LIQUIDITY DURING THE CURRENT CREDIT CRISIS?**

7 A. Yes. There have been numerous utilities that have drawn down their existing credit
8 facilities in order to protect and enhance short-term and longer-term liquidity due to the
9 current credit crisis.⁴³ If a utility had fully utilized its short-term debt capacity as
10 suggested by Mr. Rothschild and not preserved some level of its short-term borrowing
11 capacity when the credit crisis hit, then this option of protecting and enhancing short-term
12 liquidity would not have been available.
13

14 Again, Mr. Rothschild's Decision Tree does not account for or consider any of these
15 circumstances, further highlighting the ineffectiveness of the Decision Tree as a tool for
16 determining the appropriate rate to apply as the carrying charge for calculating the
17 supply-related working capital allowance in this proceeding.
18

19 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

20 A. Yes, it does.

⁴³ See, e.g., SNL Financial LC, "Edison International draws down \$2.1 billion in credit to shore up liquidity", November 8, 2008; SNL Financial LC, "APS unable to get credit for capital projects, draws down lines of credit", November 7, 2008; American Electric Power, Inc., SEC Form 8-K, October 10, 2008 .