STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 14-238

2015 PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE RESTRUCTURING AND RATE STABILIZATION AGREEMENT

REBUTTAL TESTIMONY OF PHILIP J. LEMBO AND EMILIE G. O'NEIL

November 19, 2015

Q. Please state your names.

A. Our names are Philip J. Lembo and Emilie G. O'Neil

Q. Have you previously filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of this rebuttal testimony?

A. The purpose of this testimony is to rebut the testimony filed by Non-Advocate Staff on September 18, 2015. In particular, we address the testimony of Mr. Dudley and of Mr. Stachow to the extent that he incorporates or refers to Mr. Dudley's testimony.

Q. Please summarize the portions of Mr. Dudley's testimony that you wish to address.

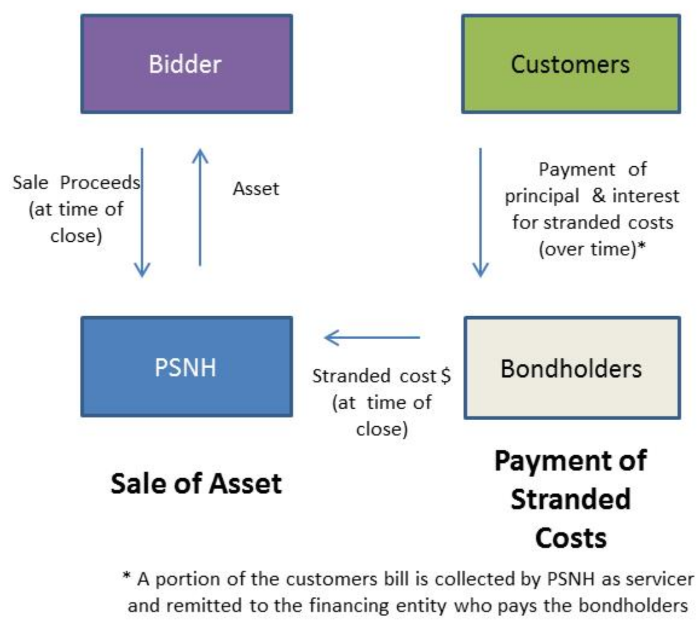
A. Mr. Dudley's testimony is founded upon his mistaken belief that customer savings approximating those from securitization could be achieved in the near-term via a traditional corporate financing. We will demonstrate that there are financial, Constitutional, and practical reasons why Mr. Dudley's proposal for a traditional bond issuance is not viable and reaffirm that the proposed securitization is the most cost effective way for customers to fund stranded costs.

Mr. Dudley also questioned the appropriateness of the savings associated with the two-year rate case stay-out provision in the Settlement Agreement, but this is addressed in the rebuttal testimony of Mr. Eric H. Chung.

Q. Please explain how Mr. Dudley's proposal for traditional bond financing differs from the securitization of stranded costs proposed in the Settlement Agreement.

A. The mechanics of securitization are illustrated below, and show how PSNH will recover the value of the generation assets and other costs associated with divestiture through a combination of proceeds from the sale of the assets and through the issuance of RRBs. In his preliminary analysis Mr. Chung estimated that PSNH would receive $225.0 million in sales proceeds and issue $507.2 million in RRBs to cover remaining stranded costs.[1] The securitization of stranded costs will be financed at Triple-A debt rates. These rates will be lower than PSNH's cost of capital. This differential is expected to account for a material portion of customer savings once the securitization closes.

Cash Flows from Asset Sale and Securitization of Stranded Costs



Mr. Dudley contends that PSNH could achieve comparable savings through traditional bond financing if divestiture was delayed. He notes that the costs associated with the Merrimack Station scrubber are the primary driver of stranded costs and accepts these costs are approximately $478.5 million (see Attachment L/O-R-1, response to Eversource data request 1-10). Mr. Dudley consequently proposes that PSNH issue $478.5 million in new debt through a traditional bond issuance. The $478.5 million in new debt would be the only funds received by PSNH in the near-term under Mr. Dudley's proposal, since the

[1] Attachment EHC-1, Page 4

generating assets would not be sold for at least five years per Non-Settling Staff's testimony.

The traditional bonds that Mr. Dudley proposes PSNH issue would also not contain the "characteristics and protections" of a securitization financing. We will discuss these later in our testimony, but these features are essential for customers to benefit from the low cost of highly rated (Triple-A) debt.

Q: Mr. Dudley comes to the ultimate determination 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." (Page 15, line 3).**

Do you agree with Mr. Dudley?

A. No. Near-term use of a traditional bond financing to pay off future potentially stranded costs cannot be used to produce savings to customers.

Mr. Dudley does not properly address the negative impacts that a half-billion dollar debt issuance would have on PSNH's capital structure; he does not address the negative impacts on PSNH's credit rating of such a financing; he does not address the constitutional issues that impact the "savings" he assumes from his near-term financing scheme; nor does he consider the fiduciary duty that the company has toward its shareholder.

Q. Please explain how Mr. Dudley's proposal differs from the financing of PSNH generation as it exists today.

A. All investments in PSNH generation, including those associated with the scrubber, are presently funded from PSNH's overall capital structure, which is comprised of 45.9% long-term debt and 54.1% equity[2]. Mr. Dudley's proposal to finance the scrubber costs with 100% debt therefore represents a significant departure from PSNH's prevailing capital structure. Given the size of the debt issuance contemplated by Mr. Dudley, his proposal would have a material and negative impact on the capital structure of PSNH as whole. The proposed change of capital structure is very concerning to us since it would have many adverse impacts for customers which we'll detail later in our testimony.

Q. Please explain how Mr. Dudley's proposal will impact the capital structure of PSNH.

A. PSNH's capital structure presently includes approximately $1.0 billion in long term debt (45.9%) and $1.2 billion in equity (54.1%). Under Mr. Dudley's proposal, PSNH would refinance $180 million of existing long-term debt (see Attachment L/O-R-2, response to Eversource data request 1-17) and issue $298.5 million of incremental debt (totaling the $478.5 million in financing we discussed earlier). Since Mr. Dudley's proposal does not contemplate a use for the $298.5 million of cash, PSNH would return the cash proceeds to shareholders and reduce its equity. This is a critical point that was overlooked by Mr. Dudley when he recalculated PSNH's capital structure in his response to data requests Eversource 1-17 and OEP 1-23 (Attachment L/O-R-3).

As shown below, contrary to the capital structures he calculates in his responses to Eversource data request 1-17 and OEP data request 1-23, Mr. Dudley's proposal would

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[2] PSNH's 5 quarter average capital structure as of 6/30/15. This capital structure supports $2.2 million of PSNH rate base for the 5 quarter average as of 6/30/15.

increase PSNH's long term debt component from 45.9% to 59.2% of PSNH's overall capital structure.

PSNH Capital Structure: Current and Under Staff Proposal

	Current	***Ratio***	**Staff Proposal**	***Ratio***
Long-Term Debt	$ 1,026,375	*45.9%*	$ 1,324,875	*59.2%*
Total Equity	$ 1,211,482	*54.1%*	$ 913,482	*40.8%*
Total	$ 2,237,858		$ 2,237,858	

Unlike Mr. Dudley's proposal, one of the main advantages of securitization as proposed in the Settlement Agreement is that it allows customers to benefit from low cost debt financing without adversely impacting the capital structure of PSNH. As we will discuss later, RRBs issued under securitization are not considered the debt of PSNH for regulatory and rating agency purposes. The proceeds from the securitization will be used to reduce capitalization while maintaining a similar capital structure.

Q. Why is the capital structure that would result from Mr. Dudley proposal concerning?

A. Mr. Dudley's proposal would result in an aberrant capital structure (59.2% long-term debt/40.8% equity) that is outside of industry norms. Having too much debt in a company's capital structure is referred to as being "over leveraged." An over-leveraged company is more risky than one with a more appropriate capital structure. An over-leveraged company has too much of its revenues dedicated to payment of debt, reducing the resources available to deal with the contingencies of its normal operation.

The need for an appropriate capital structure is widely and universally known. For example, the most recent expert testimony filed before the Commission regarding this subject came from Liberty Utilities' expert Robert B. Hevert, Managing Partner of Sussex Economic Advisors, LLC, in his August, 2014, pre-filed testimony in the

EnergyNorth Natural Gas rate case, Docket DG 14-180. Mr. Hevert testified (at page 58, line 15):

Q. How does the capital structure affect the Cost of Equity?

A. The capital structure relates to a company's financial risk, which represents the risk that a company may not have adequate cash flows to meet its financial obligations, and is a function of the percentage of debt (or financial leverage) in its capital structure. In that regard, as the percentage of debt in the capital structure increases, so do the fixed obligations for the repayment of that debt. Consequently, as the degree of financial leverage increases, the risk of financial distress (i.e., financial risk) also increases. Since the capital structure can affect the subject company's overall level of risk, it is an important consideration in establishing a just and reasonable rate of return.

Q. Wouldn't a securitized financing of stranded costs cause the same problems to PSNH's capital structure?

A. No. A securitized financing is not considered the debt of PSNH for ratemaking and rating agency purposes. The financing is offered by a financing entity (as defined in RSA 369-B:2, VI) which acquires the "RRB Property" (as defined in RSA 369-B:2, XV) from PSNH. Thus, neither the Company's capital structure nor its credit ratings are affected by the securitization process.

Q. Couldn't Eversource Energy, PSNH's parent, just infuse more equity into PSNH in order to keep its capital structure in balance?

A. No, because there would be no need for additional equity or cash at PSNH.

Q. Could the Company fulfill its fiduciary duty to shareholders if it implemented Mr. Dudley's traditional first mortgage bond financing proposal?

A. No. Company management owes a fiduciary duty to its shareholders. During the Technical Session held on November 4, 2015, Mr. Dudley repeatedly stated that his alternative financing idea could be successful if Company management agreed to forfeit all equity return on the scrubber investment until the Company's generating assets were divested. The scrubber encompasses nearly a half-billion investment (including the cost of the pollution control device itself and existing deferrals), amounting to roughly two-thirds of the Company's generation segment book value. As long as the Company has the operational, maintenance, financial and prudence risk of operating its assets, it is entitled to a fair return for doing so. Giving up the right to earn a fair return on this investment would run afoul of management's fiduciary duty to shareholders.

Q. Mr. Dudley testifies that securitization of stranded costs is unnecessary and that he is not "convinced that it constitutes the cheapest alternative for ratepayers." (Page 14, line 14). Do you agree with Mr. Dudley?

A. Once again, we disagree with Mr. Dudley. A securitized financing as contemplated in the Settlement Agreement is the most cost-efficient method of mitigating the impact of stranded costs. Mr. Dudley's conclusion that there is a more cost-effective alternative is based upon a mathematically incorrect analysis, as explained in the testimony of Mr. Chung, and his failure to recognize myriad other factors that would preclude the availability of his recommended action.

Q. Mr. Dudley next criticizes your direct testimony where you discuss the need to obtain a Triple-A rating for any securitization financing, and where you say that a failure to obtain a Triple-A rating for such a securitization financing would confuse the market and signal that the transaction is "abnormal and risky." (Page 15, line 2). Is Mr. Dudley's criticism warranted?

A. No. One of the fundamental reasons for securitizing the financing of stranded costs is to reduce the cost of that financing to the lowest level possible. That requires that such a financing receive the best, i.e., Triple-A, rating. If PSNH were to go to market with a securitized financing that did <u>not</u> achieve a Triple-A rating, it would be more risky than every previous securitized financing, therefore sending confusing signals to investors, which would result in a higher interest cost for ratepayers.

Q. Would PSNH debt ratings be adversely affected if PSNH implemented Mr. Dudley's plan?

A Yes – without a doubt. If PSNH instituted Mr. Dudley's plan, the Company's credit rating would be significantly and adversely affected.

Moody's Investment Services, one of the three primary credit ratings agencies, makes public its ratings criteria. Attached as Attachment L/O-R-4 is a copy of Moody's "Rating Methodology – Regulated Electric and Gas Utilities." Moody's states, "This rating methodology explains Moody's approach to assessing credit risk for regulated electric and gas utilities globally and is intended to provide general guidance that helps companies, investors, and other interested market participants understand how qualitative and quantitative risk characteristics are likely to affect rating outcomes for companies in the regulated electric and gas utility industry."

Moody's states there are four key factors that are important in its assessment for ratings in the regulated electric and gas utility sector: 1. Regulatory Framework; 2. Ability to Recover Costs and Earn Returns; 3. Diversification; and, 4. Financial Strength. The "Rating Methodology" goes on to provide more detail about these four key factors, break them down into sub-factors, and quantify their impact on an overall credit rating:

Factor / Sub-Factor Weighting - Regulated Utilities

Broad Rating Factors	Broad Rating Factor Weighting	Rating Sub-Factor	Sub-Factor Weighting
Regulatory Framework	25%	Legislative and Judicial Underpinnings of the Regulatory Framework	12.5%
		Consistency and Predictability of Regulation	12.5%
Ability to Recover Costs and Earn Returns	25%	Timeliness of Recovery of Operating and Capital Costs	12.5%
		Sufficiency of Rates and Returns	12.5%
Diversification	10%	Market Position	5%*
		Generation and Fuel Diversity	5%**
Financial Strength, Key Financial Metrics	40%		
		CFO pre-WC + Interest/ Interest	7.5%
		CFO pre-WC / Debt	15.0%
		CFO pre-WC – Dividends / Debt	10.0%
		Debt/Capitalization	7.5%
Total	**100%**		**100%**
Notching Adjustment			
		Holding Company Structural Subordination	0 to -3

*10% weight for issuers that lack generation; **0% weight for issuers that lack generation

CFO: Cash Flow from Operations

WC: Working Capital

The first factor, "Regulatory Framework," comprises 25% of Moody's weighting. Half of that weighting relates to "Consistency and Predictability of Regulation." PSNH and the state's other utilities have benefitted from the consistent and predictable nature of this Commission's actions. But, an action flipping the capital structure of the state's largest utility from 45.9% long-term debt and 54.1% equity to 59.2% long-term debt and 40.8% equity would be a significant departure from that historically consistent and predictable regulation, which would negatively affect <u>all</u> utilities in the state.

The second factor, "Ability to Recover Costs and Earn Returns" has two subcomponents: Timeliness of Recovery of Operating and Capital Costs; and, Sufficiency of Rates and Returns. The existing Temporary Rate level for the scrubber which provides for only a fraction of the recovery of the costs of that mandated investment are already putting pressure on the first sub-factor. (Recall that PSNH sought an accounting order in Docket No. DE 11-250 to help alleviate this ratings pressure, but the Commission rejected that request.) The Settlement Agreement's provision to put all scrubber costs into rates as of January 1, 2016, (if accepted via approval of the Motion to adjust the existing temporary rate) will significantly improve the Company's standing with regard to this sub-factor. The second sub-factor, "Sufficiency of Rates and Returns," has been discussed in our earlier testimony. Unless the Commission allowed the Company to earn the fair return required by *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923), our rating in this category would significantly decline.

The third factor relates to "Diversification." This factor has only a 10% impact on Moody's ratings, and Moody's notes that half of that factor has "0% weight for issuers that lack generation."

The fourth factor in Moody's rating methodology is "Financial Strength, Key Financial Metrics." This factor has the largest overall impact on Moody's ratings, at 40%. Moody's identifies four metrics that it relies upon in this category to rate electric and gas utilities: 1. Cash flow from Operations ("CFO") Pre-Working Capital Plus Interest/Interest or Cash Flow Interest Coverage; 2. CFO Pre-Working Capital/Debt; 3. CFO Pre-Working Capital Minus Dividends/Debt; and, 4. Debt/Capitalization. Each of these metrics is described by Moody's on page 22 of Attachment L/O 4.

In the table below, we have calculated each of these four Moody's metrics based on the Company's financials as of year-end 2014, and what they would be if the Company issued $478 million of debt per Mr. Dudley's proposal.

Key Financial Credit Metrics	Actual Year End 2014	Adjusted (1) Year End 2014
CFO pre WC + Interest / Interest	7.5	7.0
CFO pre-WC / Debt	25.2%	20.0%
CFO pre-WC-Dividends / Debt	19.6%	-4.9%
Debt / Capitalization	48.7%	61.2%

(1) Pro-Forma adjustments to the 12/31/14 financial metrics reflect $478M long-term debt issuance, $180M long-term debt redemption and a special dividend of $298M.

This chart demonstrates how each of the sub-factors that total 40% of what Moody's bases its credit rating on for an electric utility would be significantly and adversely impacted if Mr. Dudley's proposal was put into effect. The first sub-factor would drop; the second would also drop by over 20%; the third sub-factor would demonstrate a devastating impact, falling into the negative range; and the final sub-factor would demonstrate the aberrant debt-leveraging of the resulting 60/40 debt/equity capital structure. Such drastic departures in these credit rating metrics would have a significantly negative effect on PSNH's credit rating.

It is our opinion that if Mr. Dudley's proposal to have PSNH issue an additional $478 million in corporate debt was accepted, PSNH would suffer a downgrade from all three ratings agencies. These downgrades would increase the cost of the very financing that Mr. Dudley states could be done economically due to PSNH's favorable credit rating. It would make PSNH a more risky investment requiring near-term filing of a general rate case in order to seek a return on equity commensurate with that risk.

Q. Mr. Dudley testifies that other than the State pledge not to impair the Rate Reduction Bond property right established by statute, a normal PSNH debt offering and a securitization financing "possess similar if not identical characteristics and protections." (Page 16, line 16). Mr. Dudley continues by testifying, "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." Do you agree with Mr. Dudley's testimony in this regard?

A. No. The Legislature has indeed enacted the non-impairment pledge referred to by Mr. Dudley. RSA 369-B:6, II contains that pledge:

> II. The state does hereby pledge, contract, and agree with the owners of RRB property and holders of and trustees for rate reduction bonds that neither the state, nor any of its agencies, including the commission, shall limit, alter, amend, reduce, or impair the RRB charge, RRB property, finance orders, and all rights thereunder or ownership thereof or security interest therein until the rate reduction bonds, including all principal, interest, premium, costs and arrearages thereon, are fully met and discharged, provided nothing contained in this paragraph shall preclude the limitation, alteration, amendment, reduction, or impairment if and when adequate provision shall be made by law for the protection of such owners, holders and trustees. The state does hereby acknowledge that such owners, holders and trustees may and will rely on this pledge, contract, and agreement and that any such limitation, alteration, amendment, reduction, or impairment without such adequate provision will irreparably harm such owners, holders and trustees. The state treasurer and the financing entity are each authorized to include this pledge, contract, agreement, and acknowledgment of the state in the documentation relating to the rate reduction bonds.

However, a securitization financing has characteristics and protections beyond the State non-impairment pledge that differentiate such a financing from a traditional first mortgage bond issuance. Mr. Dudley ignored or largely dismissed the fact that a securitization financing is not issued by the utility, but by a "special purpose securitization entity" or "SPSE". SPSE is defined in the Settlement Agreement on page 7 and in statute at RSA 369-B:2,VI. It is the combination of all of the protections that allow a securitization bond issuance to receive a Triple-A rating. And, a securitized financing has characteristics that allow the savings of such a low-cost financing to benefit customers.

As a result of the statutory non-impairment pledge, and the fact that the securitization bonds would be issued by the SPSE and not by PSNH, important distinctions between a first mortgage bond issuance and a securitization financing arise:

First, the collateral in a securitization financing is the "RRB Property," an irrevocable property right defined in the Settlement Agreement at page 7 and by law in RSA 369-B:2, XV. By law, RRB Property "constitute[s] a current and irrevocable vested property right." A first mortgage bond financing includes no equivalent property right protection.

Second, recovery of the principal in a securitization financing is accomplished via collection of the RRB Charge. The RRB Charge, defined in the Settlement Agreement at page 6 and by statute in RSA 369-B:2, XIII, "shall be non-bypassable" as a matter of law (*Id.*) and is also protected by the state's statutory non-impairment pledge. A first mortgage bond issuance has no equivalent statutory protection.

Third, in light of the features of the RRB Property and the RRB Charge, and the fact that the RRBs themselves are issued by the SPSE and not by the utility, the RRBs are "bankruptcy remote." That means that the financial health of the utility – even a bankruptcy of that utility – would not impact repayment of the RRBs. Such bankruptcy remoteness is not found in private bond issuances. And, New Hampshire is no stranger to utility bankruptcies, including bankruptcy filings by PSNH, the New Hampshire Electric Cooperative, EUA Power, and most recently FairPoint Communications.

Fourth, because the RRBs are issued by the SPSE, they are not considered debt of PSNH for regulatory and rating agency purposes. Therefore, the amounts financed via securitization are not included in the metrics that Moody's uses to rate a utility. In addition, by being off of a utility's books, the utility's capital structure does not suffer the adverse impacts that a traditional first mortgage bond issuance would inflict.

Fifth, issuances do not include additional credit enhancements that are included in a securitized financing. The Settlement Agreement defines and discusses the Overcollection Subaccount, the Reserve Subaccount, and the True-Up Mechanisms, all of which are credit enhancements that add protections to the RRBs over and above those discussed above.

Sixth, because by law a securitization financing may only be issued <u>after</u> divestiture of PSNH's generating assets (RSA 369-B:3-a, as amended by S 221), the issue of eliminating the fair return to shareholders required by *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia,* 262 U.S. 679 (1923) is resolved . Since PSNH would no longer face the prudence risk of owning, operating, and maintaining the generating assets when RRBs are issued, there would no longer be a need to compensate PSNH's shareholders for that risk. Hence, all of the savings from the low-cost securitized financing benefit customers without the need for a return to shareholders.

Q. Regarding bankruptcy remoteness, Mr. Dudley, testifies, "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)." (Page 17, line 5). Do you agree with Mr. Dudley?

A. No, we do not. Like Moody's, utility bond investors base their perception of risk on reasonable and customary actions of the state regulatory agency along with the credit metrics used by agencies such as Moody's. If this Commission were to accept Mr. Dudley's traditional financing recommendation, that action would be well-beyond any "current market expectation" and PSNH would not be able to issue debt at the current credit rating held by the Company.

Q. Mr. Dudley testifies that "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." (Page 17, line 17). Is Mr. Dudley correct?

A. No. Once again Mr. Dudley is wrong. Every utility in New Hampshire has traditional bonds outstanding to finance their operations. We are unaware of any utility in New Hampshire that has a "dedicated income stream" to service the costs of that debt. Utilities in New Hampshire, including PSNH, service their debt obligations from general rates. There is no special rate component "dedicated" to payment of debt. Only the special protections afforded by a securitized financing provide the dedicated income stream referred to by Mr. Dudley.

The RRB Charge established by RSA Chapter 369-B is the dedicated, non-bypassable income stream from a securitized financing that will be recovered as part of the Stranded Cost Recovery Charge at the level necessary to service the RRBs.

Q. Mr. Dudley testifies that it "is unclear from PSNH's testimony … 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." Is his concern warranted?

A. No. The overall securitization process set forth in the Settlement Agreement is the same as the two prior securitization financings authorized by the Commission to deal with PSNH's stranded costs. If Mr. Dudley has questions or concerns about how the RRB charge will be set, he need only look to the copious documentation on file with the Commission relating to those past two securitized financings. But as the Commission well knows, the RRB charge will be set simply to allow recovery through rates of amounts necessary to service the RRB – not less and not more.

Q. Mr. Dudley's final conclusion in his testimony is that "PSNH could achieve additional savings in interest costs by opting for a ten-year issuance or even a seven-year issuance" to finance the scrubber instead of a 15-year amortization. (Page 21, line 4). Do you agree?

A. Mathematically, Mr. Dudley is correct – a shorter financing term would reduce the carrying costs over the life of the loan. But, practically, Mr. Dudley's final conclusion is wrong. Mr. Dudley failed to take into account the dramatic impact that a shorter financing term would have on customers' rates. Think about the mortgage term that one usually obtains when buying a house. The initial mortgage term is in the 20 to 30 year range, because a shorter term would have monthly payments that were too high to be affordable. The same principle applies here. The shorter the financing term, the higher the impact on rates. The shorter financing terms suggested by Mr. Dudley would significantly increase PSNH's rates over the financing period – a result that just does not work for customers.

Q. In his testimony, Mr. Dudley discusses the current interest rate environment. Does Mr. Dudley acknowledge that interest rates are now at historic lows?

A. Yes, he does. Mr. Dudley expressly testifies that interest rates have nowhere to go but up. He says, "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." (Page 10, line 6).

His opinion that interest rates have nowhere to go but up is significant. When the principal amount of costs likely to be financed is in the half-billion dollar range, even a small increase in interest rates will ultimately increase customers' rates by millions of dollars, contrary to the purpose of divestiture and industry restructuring. The very first phrase in RSA Chapter 374-F, the Restructuring Law, is "I. The most compelling reason to restructure the New Hampshire electric utility industry is to reduce costs for all consumers of electricity… ." RSA 374-F:1, I. Delaying divestiture also delays the ultimate financing of stranded costs, and that financing will be more costly when interest rates rise, contrary to the law's express purpose of reducing costs.

Any increase in interest rates will have two detrimental and compounding impacts on customers. First, a bidder considering the purchase of any of PSNH's generating assets would have to factor higher financing costs into their bid. That would likely result in a decrease in the amount such bidder would be willing to offer to purchase those assets. A lower final sale price will increase the amount of stranded costs that will have to be financed via securitization. Second, the securitization financing itself will cost more if it carries a higher interest rate. These compounding adverse impacts of an increase in the cost of money are compelling reasons why approval of the Settlement and a near-term divestiture process best satisfy the statutory goal of reducing costs for all consumers of electricity.

Mr. Dudley did not consider both these impacts in his evaluation of the effect of interest rates on customer costs. (Dudley Testimony, Page 12, Line 9-13). He only evaluated the impact that an increase in rates would have on interest expense while holding the securitization amount constant. This led Mr. Dudley to understate the potential costs associated with delay of the proposed divestiture.

Q. Mr. Dudley testifies that he is, "unpersuaded that securitization proposed in lieu of divesture is the only alternative for financing the bulk of these costs…." (Page 14, line 12). Do you agree with Mr. Dudley?

A. We cannot understand what Mr. Dudley is saying, so we cannot agree with him. His testimony regarding "securitization in lieu of divestiture" intertwines two disparate concepts. In the Settlement Agreement, the Company and the Settling Parties have never espoused "securitization in lieu of divestiture". In fact, the Settlement Agreement calls for just the opposite – securitization <u>after</u> divestiture. And, that is what the law requires. RSA 369-B:1, XVI restricts the use of securitization to "any stranded costs resulting from the divestiture of all or some of PSNH's generation assets... ." Without divestiture, the law would not allow the securitization process to go forward.

Mr. Dudley's confusion on this important fact highlights his misunderstanding of the role and importance of the securitization process.

Q. In conclusion, do you have any final recommendations for the Commission?

A. Based upon the matters discussed in this rebuttal testimony, we recommend that the Commission disregard the testimony filed by Mr. Dudley. His testimony contains errors and flawed conclusions. He barely scratches the surface of issues, and fails to comprehend the larger picture and the significantly adverse impacts implementation of his recommendations would have.

As the Commission Chair noted during the hearing held in this proceeding on October 8, 2015, the Legislature has clearly signaled that the issue before the Commission is not "if" divestiture of PSNH's generating assets should occur, but "when." The Legislature has also clearly expressed two other goals: 1. that this process proceed expeditiously (1966 N.H. Laws, 129:1, V; 2014 N.H. Laws, Ch. 310; 2105 N.H. Laws, Ch. 221); and, 2. that the issues involved in this proceeding are best resolved via settlement. (2014 N.H. Laws 310:1).

It remains our conclusion that the most economic and efficient way to comply with the statutory directives regarding the issues before the Commission in this matter is for the Commission to approve the Settlement Agreement, quickly initiate the process of divesting PSNH's generating assets, and authorize securitization of the resulting stranded costs. These steps embrace and comply with the directives that the General Court has put into place, and are in the economic interest of customers.