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Witness: Matthew P. Fallon
Request from: Public Utilities Regulatory Authority

Question:

(SHORT TERM DEBT) Application, Ex. CL&P REVREQ-2, Schs D-1.0–D-5.0. Explain why the Company has excluded short-term debt from its ratemaking capitalization structure.

a. Provide a table which summarizes the Company's use of short- term debt for the last three calendar years and to date for 2026.
b. Explain whether the running outstanding balance is paid down to $0 by December 31 every year or as determined by its facility agreement. If not, explain how this debt can be considered short-term.

Response:

a. The Company has excluded short-term debt from the calculation of its weighted average cost of capital applicable to rate base because short-term debt serves a different financing purpose than the long-term debt and equity included in the Company's capitalization. Short-term debt serves exclusively as a bridge to fund momentary differences between the Company's cash requirements and available sources of cash. In contrast, the Company's distribution system assets that are ***in service*** and providing service to customers are long-lived investments that are recovered over a period of ***decades***. Long-term assets such as these require capital over a similarly long period and therefore are financed with permanent sources of capital, consisting of long-term debt and equity, rather than short-term debt that must be repaid or refinanced within a comparatively short period. This aligns the term of the financing with the period over which the capital is required.

   The Company's sources and uses of cash are dynamic and change on a daily basis. Cash is received from customers and other sources and is used to fund working-capital requirements, construction expenditures for projects that have not yet been completed and placed in service, and other operating requirements, and the timing of those cash receipts and cash requirements does not necessarily coincide. When cash requirements exceed available sources of cash, the Company uses short-term debt to bridge the difference. As short-term borrowing increases to meet these daily funding obligations, the Company must periodically pay down its short-term borrowing using permanent capital, including both long-term debt and equity. This financing process maintains short-term borrowing capacity for the temporary cash requirements described above, while longer-term capital requirements are financed with long-term debt and equity.

The long-term capitalization of the Company will not exactly match the amount of rate base at any given point in time. Other funding requirements, including those related to catastrophic storms, longer duration construction projects, extended recovery of annual reconciling mechanisms, only serve to increase the capital requirements of the business, which, coupled with the need to preserve liquidity at all times, eliminates the possibility that short-term funds are used to finance rate base.

However, where the Company's total long-term capitalization equals or exceeds rate base, it is clear-cut that short-term debt is not used to support rate base and is appropriately excluded from the calculation shown on Schedule D-2.0. Table 1, below, demonstrates CL&P's total capitalization exceeds rate year investment base (in-service), inclusive of deferred catastrophic storm costs, by more than $340 million during the rate year.

Table 1

($ Thousands)	Rate Year 1 Ending 6/30/2028
Long-Term Debt	5,873,011
Preferred Stock	117,020
Common Equity	6,992,264
Total Capitalization (A)	12,982,295
Rate Base	
Distribution	6,833,689
Storms "A"	748,605
Storms "B"	88,973
Transmission	4,968,000
Total Investment (B)	12,639,267
Permanent capitalization greater than rate base (A - B)	**343,028**

Moreover, as recognized by Federal Energy Regulatory Commission, Order No. 561 (establishing account requirements for Allowance for Funds Used During Construction, see RRU-137 Attachment 1). Construction Work in Progress ("CWIP") is first funded by short-term debt and then, if necessary, is funded by long-term debt and equity. If short-term balances are less than CWIP, all short-term debt interest costs will be capitalized as part of the project costs in accordance with FERC Order No. 561. This is consistent with the use of short-term debt as a bridge for temporary cash requirements, including construction expenditures incurred before projects are placed in service and become long-term investments to be included in rate base.

Please note that this approach is also consistent with prior PURA ratemaking practice on this matter. See, e.g., the Decision dated June 29, 2011, in Docket No. 10-12-02, Application of Yankee Gas Services Company for Amended Rate Schedules, at 104, citing decisions in Docket No. 06-12-02PH01, Application of Yankee Gas Services Company for a Rate Increase – Revenue Requirement and Docket No. 04-06-01, Application of Yankee Gas Services Company for a Rate Case. In addition, in Yankee Gas' most recent rate case in Docket No. 24-12-01 PURA authorized a capital structure appropriately consisting only of equity and long-term debt.

Please refer to RRU-137, Attachment 1, for the quarterly short-term debt balance for the years 2023 through the present.

Please refer to the response to RRU-136[i] for a discussion of CL&P's short-term borrowing.

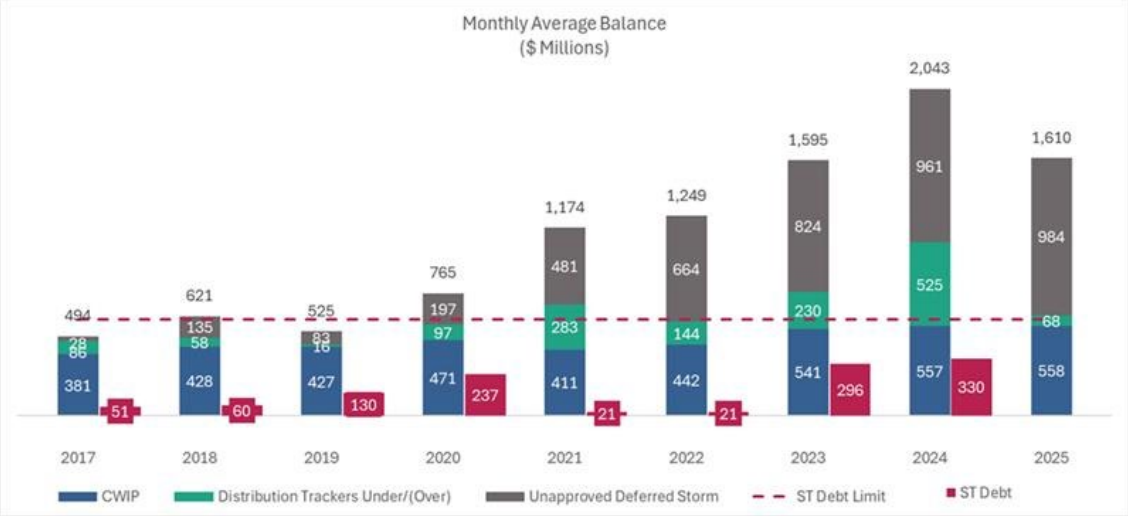
CL&P borrows short-term from its parent, Eversource Energy, via a $600 million inter-company revolving credit facility agreement CL&P Inter-Company Credit Facility. The maturity date of the short-term borrowing under the CL&P Inter-Company Credit Facility is the earlier of: (1) on demand by Eversource but not to exceed 364 days; or (2) the maturity date of the Revolving Credit Facility.

b. No. The running outstanding balance does not need to be paid down to $0 by December 31 every year. The Company's sources and uses of cash change daily, and short-term borrowings increase and decrease as differences in the timing of cash receipts and cash requirements arise and are resolved. December 31 is simply one point in that continuing cash cycle and has no particular relationship to the Company's funding requirements or the maturity of its short-term borrowings.

As short-term debt balances increase, the Company periodically pays down those balances with permanent sources of capital, consisting of long-term debt and equity. These periodic payments of outstanding short-term debt balances are critical to preserve short-term borrowing capacity and the liquidity necessary to operate the businesses and respond to changing cash requirements.

Figure 1, below, provides additional context by comparing the Company's short-term debt balance with significant uses of cash, including Construction Work in Progress ("CWIP"), under- or over-recoveries associated with distribution cost-reconciling mechanisms, and deferred storm costs.

Figure 1



As shown in Figure 1, from 2017 through 2025, the combined average monthly balance of these items substantially exceeded the Company's average short-term debt balance in the past five years. CWIP alone averaged approximately $468 million per month over the period, compared with average short-term debt of approximately $123 million per month. That comparison is significant. Even CWIP alone substantially exceeded the Company's short-term debt balance over the period.

Short-term debt therefore cannot remain outstanding indefinitely to fund longer-term cash requirements. As balances increase, the Company must periodically replace short-term debt with long-term debt and equity, both to finance those longer-term requirements and to restore short-term borrowing capacity for temporary cash needs as they arise. ***Moreover, Figure 1 does not even include the Company's distribution rate base presented in this proceeding***. Accordingly, the average balance of short-term debt is not sufficient to fund CWIP alone, much less CWIP ***and*** annual distribution tracker under-recoveries ***and*** deferred storm costs ***and*** the Company's in-service distribution assets. Any conclusion that short-term debt provides sustained financing for those assets is therefore simply incorrect. It is contrary to basic principles of finance and the manner in which the Company actually finances its business.

Preserving short-term borrowing capacity is critical because the Company must be positioned to respond to significant cash requirements in the course of operating its distribution system. Storm restoration costs, changes in energy costs, construction expenditures and the timing of payments for taxes, interest and other operating costs can create substantial funding requirements that rarely coincide with cash received from

customers. Some of these requirements are relatively predictable, while others, particularly significant weather events, are not. The timing and magnitude of those requirements can also change quickly. Operating at or near the short-term debt limit on a sustained basis would reduce the Company's ability to respond to emerging circumstances. This is precisely why the Company does not, and cannot, operate in this manner.

The short-term nature of the debt is determined by the terms of the underlying borrowings, not whether the outstanding balance happens to reach zero on December 31. As described above, borrowings under the CL&P Inter-Company Credit Facility mature on the earlier of demand by Eversource, subject to a period not exceeding 364 days, or the maturity date of the Revolving Credit Facility. Accordingly, an outstanding balance may remain under the facility at year-end while the underlying borrowings remain short-term obligations.

Prior Referenced Response:

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[i] RRU-136 Question:

(SHORT-TERM DEBT) Application, Ex. CL&P REVREQ-2, Schs. D-1.0–D-5.0. Explain the Company's process of obtaining and using short-term debt. Specifically, discuss the following:

a. Whether, and how, this process has changed since the Company's last rate case.
b. Indicate whether there is a formal corporate facility set up to accommodate the Company's need for short-term debt. Which entity controls the facility, if any?

RRU-136 Response:

Eversource Energy parent uses its available capital resources to provide loans to its direct and indirect subsidiaries through inter-company revolving credit agreements to assist in meeting their short-term borrowing needs. Eversource Energy parent has a $2 billion Commercial Paper Program allowing it to issue commercial paper as a form of short-term debt. This $2 billion resource is used to cover the cash requirements of all six of the operating affiliates, including CL&P, as well as Eversource Energy, the Eversource Energy Service Company and all other non-regulated affiliates within the holding company structure.

CL&P borrows short-term from its parent, Eversource Energy, via a $600 million inter-company revolving credit facility agreement ("CL&P Inter-Company Credit Facility"). The borrowing rates CL&P pays on the CL&P Inter-Company Credit Facility track the rates Eversource Energy parent pays on its Commercial Paper Program. This CL&P Inter-Company Credit Facility is the primary source of short-term borrowings for CL&P.

In addition to the CL&P Inter-Company Credit Facility, CL&P, along with Eversource Energy parent, Public Service Company of New Hampshire, NSTAR Gas Company, Yankee Gas Services Company and Eversource Gas Company of Massachusetts, are parties to a five-year $2 billion revolving credit facility, which terminates on October 11, 2031 ("Revolving Credit Facility"). CL&P's borrowings on the Revolving Credit Facility are limited to a maximum amount of $600 million. This Revolving Credit Facility serves to backstop Eversource parent's $2 billion Commercial Paper Program. The revolving credit facility is administered by Bank of America, N.A. and is comprised of 16 banks which have different levels of loan commitments. There are no borrowings under the Revolving Credit Facility.

The Eversource Energy Service Company Treasury Department manages the funding needs of all Eversource subsidiaries, including CL&P. CL&P's process for obtaining short-term debt has not changed since the last rate case.