

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Iroquois Gas Transmission System, L.P.) Docket No. RP04-____

**PREPARED DIRECT TESTIMONY OF
PAUL BAILEY
ON BEHALF OF
IROQUOIS GAS TRANSMISSION SYSTEM, L.P.**

1 **Q.1 Please state your name and business address.**

2 A.1 My name is Paul Bailey. My business address is One Corporate Drive, Suite 600,
3 Shelton, Connecticut.

4 **Q.2 By whom are you employed and in what capacity?**

5 A.2 I am employed by Iroquois Pipeline Operating Company, a subsidiary of Iroquois
6 Gas Transmission System, L.P. (“Iroquois” or the “Company”), as Vice President
7 and Chief Financial Officer.

8 **Q.3 Please briefly summarize your educational and professional background.**

9 A.3 I hold a Bachelor of Business Management degree from Ryerson Polytechnical
10 Institute (Toronto, Canada) and a Master of Business Administration degree from
11 York University (Toronto, Canada). I also hold a Certified Management
12 Accounting designation.

13 My work experience with regulated utilities commenced in 1968 when I
14 joined Ontario Hydro, a large electrical utility headquartered in Toronto, Canada.
15 Over a thirteen year period there, I held various finance-related positions of

1 increasing responsibility. In 1982 I assumed a Senior Manager position with
2 TransCanada Pipelines of Calgary. From 1982 to 1990, I held several Senior
3 Manager/Directors positions in the areas of accounting and finance. I also
4 testified before the National Energy Board of Canada with respect to numerous
5 Company rate filings. My last position with TransCanada Pipelines was
6 Executive Assistant to the Chairman, President and Chief Executive Officer, as
7 well as to the Company's Chief Operating Officer. In August, 1992 I assumed
8 my current position with the Iroquois Pipeline Operating Company with
9 responsibilities for the following functional areas: Accounting, Treasury,
10 Computer Support and Services, Human Resources and the Office Administration
11 Department. I previously submitted testimony in Iroquois' prior rate cases in
12 Docket Nos. RP94-72 and RP97-126.

13 **Q.4 What is the purpose of your prepared direct testimony in this proceeding?**

14 A.4 The purpose of my testimony is to support Iroquois' capital structure and cost of
15 debt capital. Mr. Gaske will support Iroquois' cost of equity capital.

16 **Q.5 What exhibits are you sponsoring?**

17 A.5 I am sponsoring:

Exhibit ____ (PB-1): Prepared Direct Testimony of Paul Bailey

Exhibit ____ (IGT-1): Overall Rate of Return and Capital
Structure—Statements F-2, F-3

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19 Additionally, in accordance with section 154.308 of the Commission's
20 regulations, I provided the representation of the chief accounting officer contained
21 in Iroquois' rate filing. Consistent with that representation, I directed Iroquois'
22 accounting personnel to provide Iroquois' rate witnesses with accurate cost

1 information from Iroquois' books and records for the purpose of preparing
2 Iroquois' rate filing.

3 **Q.6 Were these exhibits prepared by you or under your direction or**
4 **supervision?**

5 A.6 Yes, they were.

6 **Q.7 Please explain Statement F-2.**

7 A.7 Statement F-2 shows Iroquois' overall company capital structure at the end of the
8 base period (September 30, 2003), and as adjusted through the end of the test
9 period (June 30, 2004). Consistent with Commission policy stated in Iroquois'
10 Eastchester certificate orders in Docket No. CP00-232, Iroquois has used its
11 overall company capital structure rather than attempting to develop an
12 incremental capital structure for the Eastchester Project. I note that Iroquois did
13 not obtain so-called "project" financing for the Eastchester Project; rather the debt
14 procured for that project is general obligation debt of Iroquois.

15 As shown on Statement F-2, Iroquois' total base period capitalization of
16 \$757,632,773 was comprised of \$475,555,559 of long-term debt and
17 \$282,077,214 of partners' equity. Iroquois is a partnership of six U.S. and
18 Canadian energy companies. Iroquois has no preferred stock.

19 Iroquois' total test period capitalization of \$789,179,198 is comprised of
20 \$458,888,894 of long-term debt and \$330,290,304 of partners equity, resulting in
21 a test period debt/equity ratio of 58.15% debt / 41.85% equity. As shown on
22 Statement F-2, Iroquois' average cost of debt is 7.36%, while its proposed cost of
23 equity capital is 14.90% (supported by witness Gaske). Iroquois' resulting overall
24 weighted cost of capital (rate of return) is 10.52%.

1 **Q.8 Please explain the adjustments to Iroquois’ base period capitalization.**

2 A.8 The test period adjustments to Iroquois’ base period capitalization are shown on
3 Statement F-2 under the column entitled “Adjustments Base Period to Test
4 Period.” The \$16,666,665 reduction in long-term debt shown on line 1 (and
5 detailed on Statement F-2, page 3 of 3) reflects principal payments on long-term
6 debt that will be made through the end of the test period. The test period increase
7 of \$48,213,090 in partners’ equity shown on line 2 (and detailed on Statement F-
8 2, page 2 of 3) represents Iroquois’ income before taxes plus a capital contribution
9 of \$10 million made by Iroquois’ partners in October of 2003 to fund
10 expenditures on the Eastchester Project. A September 2003 capital contribution
11 of \$10 million by Iroquois’ partners was reflected in the base period.

12 **Q.9 Please explain Statement F-3.**

13 A.9 Statement F-3 shows the cost of individual debt instruments for the base period
14 and the test period. Iroquois has three major debt instruments. Statement F-3 at
15 page 1, lines 1 and 10 shows \$200,000,000 of 8.68% senior notes issued by
16 Iroquois in May 2000 and due in 2010. Iroquois pays interest only on that
17 instrument until maturity. Lines 2 and 11 show \$170,000,000 of 6.10% senior
18 notes issued by Iroquois in August 2002 and due in 2027. Iroquois pays interest
19 only on that instrument until 2008, when Iroquois begins paying principal and
20 interest. Lines 3 and 12 show Iroquois’ bank debt (also referred to as the “Term
21 Loan Facility”), which had a principal balance of \$105,555,559 at the end of the
22 base period and is projected to have a principal balance of \$88,888,894 at the end
23 of the test period. As shown on Statement F-3, page 2 of 2, a portion of the bank

1 debt is priced at a variable rate based on the Libor rate plus 1%, while the
2 remaining portion has been “swapped out” at a fixed rate of 6.8750%.

3 **Q.10** **Does this conclude your prepared direct testimony?**

4 **A.10** Yes, it does.

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