STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DE 09-179

In the Matter of:
Public Service Company of New Hampshire
Petition for Adjustment of Stranded Cost Recovery Charge

Direct Testimony

of

Steven E. Mullen
Assistant Director – Electric Division

November 23, 2009

Public Service Company of New Hampshire

DE 09-179

I. INTRODUCTION AND SUMMARY

Q. Please state your name, position and business address.

A. My name is Steven E. Mullen. I am employed by the New Hampshire Public Utilities Commission as Assistant Director of the Electric Division. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. Please summarize your educational background and work experience.

A. In 1989, I graduated *magna cum laude* from Plymouth State College with a Bachelor of Science degree in Accounting. I attended the NARUC Annual Regulatory Studies Program at Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School sponsored by Florida State University. I am a Certified Public Accountant and have obtained numerous continuing education credits in accounting, auditing, tax, finance and utility related courses.

From 1989 through 1996, I was employed as an accountant with Chester C. Raymond, Public Accountant in Manchester, NH. My duties involved preparation of financial statements and tax returns as well as participation in year-end engagements. In 1996, I joined the Commission as a PUC Examiner in the Finance Department. In that capacity I participated in field audits of regulated utilities' books and records in the electric, telecommunications, water, sewer and gas industries. I also performed rate of return analysis, participated in financing dockets and presented oral testimony before the

Commission. In 1998, I was promoted to the position of Utility Analyst III and continued to work in all of the regulated industry fields, although the largest part of my time was concentrated on electric and water issues. As part of an internal reorganization of the Commission's Staff in 2001, I became a member of the Electric Division. I was promoted to Utility Analyst IV in 2007 and then Assistant Director of the Electric Division in 2008. Working with the Electric Division Director, I am responsible for the day-to-day management of the Electric Division including decisions on matters of policy. In addition, I evaluate and make recommendations concerning rate, financing, accounting and other general industry filings. I represent Staff in meetings with company officials, outside attorneys, accountants and consultants relative to the Commission's policies, procedures, Uniform System of Accounts, rate case, financing and other industry and regulatory matters.

Q. Have you previously testified before this Commission?

A. Yes. I have testified before the Commission on numerous occasions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide comments and recommendations regarding Public Service Company of New Hampshire's (PSNH) September 24, 2009 filing requesting an adjustment to its Stranded Cost Recovery Charge (SCRC) effective with service rendered on and after January 1, 2010.

Q. Did PSNH request a specific adjustment to its SCRC rate in its filing?

A. No. Based on its then-current estimate of SCRC revenues and expenses for calendar year 2010, PSNH provided a preliminary calculation of an overall average 2010 SCRC rate of 1.02 cents per kilowatt-hour (kWh). That rate would be a decrease of 0.12 cents per kWh from the current overall average rate of 1.14 cents per kWh.

Q. Why is PSNH only providing its preliminary estimate of the SCRC rate at this time?

A. Similar to prior SCRC rate setting proceedings, in its initial filing PSNH provides its then-current estimate of the SCRC rate. The rate calculation is subsequently updated just prior to hearing to adjust for the most recent information available pertaining to such items as a) PSNH's estimates of the above-market cost of purchases from independent power producers ("IPPs") and b) any under- or over-collection of SCRC costs for the then-current calendar year.

Q. When will PSNH update its calculation of the proposed 2010 SCRC rate in this proceeding?

A. Pursuant to the approved procedural schedule, PSNH will file updated information on December 7, 2009, with the hearing scheduled for December 10.

Q. Do you have any concerns with the methodology PSNH used to calculate the proposed SCRC rate?

A. No. PSNH's methodology is consistent with prior SCRC proceedings. As various stranded cost components have become fully recovered in recent years, the calculations have become simpler and more routine.

Q. What are the major cost components of the SCRC that remain to be collected from customers?

A. The SCRC currently consists of Part 1 and Part 2 costs. Part 1 costs are the costs of paying the rate reduction bonds associated with the securitization of such cost items as the over-market portion of regulatory assets related to PSNH's prior ownership interest/entitlement in Seabrook Station as well as PSNH's prior ownership share of Millstone 3. Part 2 costs consist mainly of two items: a) the over-market portion PSNH's energy purchases from independent power producers (IPPs) pursuant to existing rate orders or contracts, and b) the up-front payments made for Commission-approved buyouts and buydowns of certain IPP rate orders along with PSNH's share of the savings associated with those buyouts and buydowns.

Q. When is PSNH's collection of Part 1 costs scheduled to end?

A. PSNH's final payment on the remaining series of securitization bonds is scheduled for April 2013, so Part 1 of the SCRC is scheduled to be fully recovered by May 2013.

Q. Can that schedule be changed?

A. No. The securitization bonds are AAA rated bonds and have many restrictions and conditions including first priority of payment from SCRC revenues. Any attempt to change that schedule would be very problematic.

Q. When is Part 2 scheduled to end?

A. PSNH is obligated under existing rate orders and contracts to purchase energy and/or capacity from various facilities for future periods that extend as far as the year 2023. However, an examination of the pricing terms of those agreements reveals that, for the three agreements that extend the longest into the future, the energy and capacity pricing terms are based on PSNH's avoided costs, or market prices, in the later years of the agreements. With respect to the over-market portion of energy and capacity payments, the last agreement to have a non-market based price is scheduled to terminate in 2018. Therefore, the component of Part 2 that relates to the over-market portion of PSNH's energy and capacity purchases can be seen as ending in 2018. As for the amortization of

PSNH's up-front payments and its portion of the savings related to prior IPP rate order and contract buyouts and buydowns, those costs are being amortized over the lives of the original agreements. The scheduled termination of those amortizations is in the year 2020.

Q. Do you have a recommendation that could potentially shorten the remaining time for PSNH to collect some of its Part 2 stranded costs?

A. Yes. What I propose is that, with the completion of PSNH's recovery of its Part 1 costs in the first half of 2013, the recovery of the remaining unamortized balances of the buyout/buydown savings be accelerated so they are fully recovered by June 30, 2013. As I've calculated on Attachment SEM-1, the unamortized balance of the buyout/buydown regulatory asset as of December 31, 2012 will be $7,733,451. By continuing to amortize the asset over the remaining lives of the underlying rate orders and contracts, the estimated annual amortization for calendar year 2013 would be approximately $1.8 million. Rather than providing recovery of only the $1.8 million in that year, I propose that the entire $7.7 million be recovered in 2013, with recovery ending by June 30, 2013.

Q. Why do you propose ending the recovery by June 30, 2013?

A. That date coincides with what is normally the last date of a period prior to the annual July 1st mid-year adjustment of the SCRC. Completing the collection of the buyout/buydown amounts by June 30 would allow for a normal adjustment to the SCRC on July 1, 2013.

Q. Please explain how your proposal would impact the total buyout/buydown-related costs to be paid by PSNH customers.

A. Attachment SEM-1 is a schedule showing all of the unamortized individual buyout/buydown amounts as of December 31, 2008 along with the scheduled termination date of each of the amortizations. In addition, I've calculated the annual amortization for each of the years 2009 through 2020. On the lower half of the page, I've calculated an estimated annual return based on the average outstanding balance for each year. On Attachment SEM-2, I've provided the same calculations, but have ended those calculations as of June 30, 2013 rather than December 31, 2020. As shown on line 37 of SEM-1 and SEM-2, in each case PSNH would receive the same total amount of $15,298,442 that was remaining in the regulatory asset as of December 31, 2008. The difference comes from the amount of return PSNH customers would pay over time. A comparison of the total annual return amounts shown on line 36 of each attachment over the duration of the amortization periods shows that, on a nominal basis, my proposal results in PSNH customers paying approximately $1.1 million less in total return. On a net present value basis, as shown on line 39 of each attachment, my proposal actually has a higher (approximately $250,000) value to PSNH. That is simply because PSNH would recover the full amount of the regulatory asset sooner than it would under the current amortization schedule. The difference in net present value to customers depends on the assumed discount rate. At higher discount rates, the difference in NPV is greater (i.e., the cost to customers is greater), while at low discount rates, my proposal could actually provide additional customer benefit.

Q. Are there any other potential revenue requirements impacts that could occur in 2013 as a result of your proposal?

A. As there are deferred taxes associated with the buyout and buydown transactions, the remaining deferred tax obligations would reverse in 2013. If the then-current tax rates differ from the tax rates used to calculate the deferred taxes, then there could be an impact to PSNH's earnings. See Attachment SEM-4, a copy of PSNH's response to Staff set #2, question #2 in Docket No. DE 09-091, for additional information.

Q. What rate of return did you apply to the average outstanding balances to derive the return component?

A. I calculated the return in accordance with the orders approving the buyouts and buydowns and used the "Stipulated Rate of Return," a term that originated in Docket No. DE 99-099 and the Agreement to Settle PSNH Restructuring. The Stipulated Rate of Return uses a capital structure that is weighted 60% long-term debt and 40% common equity. The common equity has an after-tax cost rate of 8% while for long-term debt I've used the weighted cost of long-term debt from PSNH's September 30, 2009 financial statements. I've provided the calculation of the rate of return on Attachment SEM-3.

Q. How will your proposal impact the SCRC costs to be recovered during 2013?

A. Using the current amortization schedule, the 2013 amortization expense associated with the buyouts and buydowns is approximately $1.8 million, or $150,000 month. Through April 30, 2013, the scheduled end of Part 1, the remaining balance of the buyout/buydown regulatory asset would be approximately $7.1 million ($7.7 million as of 12/31/2012 minus 4 months X $150,000). If the remaining $7.1 million is recovered during the months of May and June 2013, the monthly costs would be approximately $3.55 million per month rather than $150,000 per month. However, there would still be a reduction in the total monthly SCRC costs for those two months as compared to the monthly costs for January through April 2013 because once Part 1 costs end, total SCRC costs will be reduced by approximately $5 million per month. Beginning in July 2013 and for every year through 2020, all of the costs associated with the buyouts and buydowns would have been fully recovered by PSNH, so there would no longer be any monthly amortization expense nor any return added to what would have otherwise been an unamortized balance.

Q. Will your recommendation impact PSNH's 2010 SCRC costs or revenues or the calculation of the 2010 SCRC rate?

A. No. My recommendation simply gives the Commission, as well as other parties, something to consider for future implementation as a way to end recovery of certain of PSNH's stranded costs earlier than they otherwise would have been fully recovered. I've developed my recommendation in a way that reduces the overall amount of costs, on a nominal basis, to be paid by PSNH customers, while still allowing PSNH full recovery of the costs to which it is entitled.

Q. Does this conclude your testimony?

A. Yes, it does.

	IPP	Scheduled Termination Date	12/31/2008 Balance	2009 Amort.	2010 Amort.	2011 Amort.	2012 Amort.	2013 Amort.	2014 Amort.	2015 Amort.	2016 Amort.	2017 Amort.	2018 Amort.	2019 Amort.	2020 Amort.
1	China Mills	4/22/2015	853,142	134,712	134,712	134,712	134,712	134,712	134,712	44,870					
2	Fiske Mill Hydro	12/31/2015	689,612	98,520	98,520	98,520	98,520	98,520	98,520	98,492					
3	Pittsfield HydroPower	6/26/2015	303,563	46,704	46,704	46,704	46,704	46,704	46,704	23,339					
4	River-Bell Mill/Elm St Hydro	3/29/2013	54,945	12,924	12,924	12,924	12,924	3,249							
5	Woodsville/Rochester (Wyandotte)	5/23/2013	22,253	5,052	5,052	5,052	5,052	2,045							
6	Bio Energy	7/31/2015	1,891,824	291,168	291,168	291,168	291,168	291,168	291,168	144,816					
7	Steels pond Hydro	12/20/2014	663,143	110,532	110,532	110,532	110,532	110,532	110,483						
8	Ashuelot Hydro	12/31/2015	1,214,270	173,472	173,472	173,472	173,472	173,472	173,472	173,438					
9	Avery Dam	12/31/2015	579,042	82,716	82,716	82,716	82,716	82,716	82,716	82,746					
10	Lower Robertson Dam	12/31/2015	1,282,113	183,168	183,168	183,168	183,168	183,168	183,168	183,105					
11	Greggs Falls	12/31/2020	3,431,975	285,996	285,996	285,996	285,996	285,996	285,996	285,996	285,996	285,996	285,996	285,996	286,019
12	Hopkinton Hydro	11/20/2014	104,182	17,616	17,616	17,616	17,616	17,616	16,102						
13	Lochmere Dam	1/29/2015	556,920	91,548	91,548	91,548	91,548	91,548	91,548	7,632					
14	Milton Mills Hydro	7/27/2012	317,039	88,464	88,464	88,464	51,647								
15	Pembroke Hydro	12/31/2020	3,334,419	277,860	277,860	277,860	277,860	277,860	277,860	277,860	277,860	277,860	277,860	277,860	277,959
16	Totals		15,298,442	1,900,452	1,900,452	1,900,452	1,863,635	1,799,306	1,792,449	1,322,294	563,856	563,856	563,856	563,856	563,978

			12/31/2009 Balance	12/31/2010 Balance	12/31/2011 Balance	12/31/2012 Balance	12/31/2013 Balance	12/31/2014 Balance	12/31/2015 Balance	12/31/2016 Balance	12/31/2017 Balance	12/31/2018 Balance	12/31/2019 Balance	12/31/2020 Balance	
17	China Mills	853,142	718,430	583,718	449,006	314,294	179,582	44,870							
18	Fiske Mill Hydro	689,612	591,092	492,572	394,052	295,532	197,012	98,492							
19	Pittsfield HydroPower	303,563	256,859	210,155	163,451	116,747	70,043	23,339							
20	River-Bell Mill/Elm St Hydro	54,945	42,021	29,097	16,173	3,249									
21	Woodsville/Rochester (Wyandotte)	22,253	17,201	12,149	7,097	2,045									
22	Bio Energy	1,891,824	1,600,656	1,309,488	1,018,320	727,152	435,984	144,816							
23	Steels pond Hydro	663,143	552,611	442,079	331,547	221,015	110,483	-							
24	Ashuelot Hydro	1,214,270	1,040,798	867,326	693,854	520,382	346,910	173,438							
25	Avery Dam	579,042	496,326	413,610	330,894	248,178	165,462	82,746							
26	Lower Robertson Dam	1,282,113	1,098,945	915,777	732,609	549,441	366,273	183,105							
27	Greggs Falls	3,431,975	3,145,979	2,859,983	2,573,987	2,287,991	2,001,995	1,715,999	1,430,003	1,144,007	858,011	572,015	286,019		
28	Hopkinton Hydro	104,182	86,566	68,950	51,334	33,718	16,102								
29	Lochmere Dam	556,920	465,372	373,824	282,276	190,728	99,180	7,632							
30	Milton Mills Hydro	317,039	228,575	140,111	51,647										
31	Pembroke Hydro	3,334,419	3,056,559	2,778,699	2,500,839	2,222,979	1,945,119	1,667,259	1,389,399	1,111,539	833,679	555,819	277,959		
32	Totals	15,298,442	13,397,990	11,497,538	9,597,086	7,733,451	5,934,145	4,141,696	2,819,402	2,255,546	1,691,690	1,127,834	563,978	-	
33	Accumulated Deferred Income Taxes	(5,783,014)	(5,064,618)	(4,346,222)	(3,627,826)	(2,923,347)	(2,243,186)	(1,565,616)	(1,065,771)	(852,626)	(639,481)	(426,336)	(213,191)	-	
		9,515,428	8,333,372	7,151,316	5,969,260	4,810,104	3,690,959	2,576,080	1,753,631	1,402,920	1,052,209	701,498	350,787	-	
34	Average Deferred IPP		8,924,400	7,742,344	6,560,288	5,389,682	4,250,532	3,133,520	2,164,855	1,578,275	1,227,564	876,853	526,142	175,393	
35	X % Return (using 9/30/09 return)		8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	8.632%	
36	Annual Return		770,397	668,356	566,316	465,263	366,926	270,500	186,881	136,244	105,969	75,694	45,419	15,141	3,673,107
37	Annual Amortization		1,900,452	1,900,452	1,900,452	1,863,635	1,799,306	1,792,449	1,322,294	563,856	563,856	563,856	563,856	563,978	15,298,442
38	Total Annual Amortization/Return		2,670,849	2,568,808	2,466,768	2,328,898	2,166,232	2,062,949	1,509,175	700,100	669,825	639,550	609,275	579,119	18,971,549

39 NPV @ 12/31/09 (incl. return @ 8.632%) $11,649,212

	IPP	Scheduled Termination Date	12/31/2008 Balance	2009 Amort.	2010 Amort.	2011 Amort.	2012 Amort.	2013 Amort.
1	China Mills	4/22/2015	853,142	134,712	134,712	134,712	134,712	314,294
2	Fiske Mill Hydro	12/31/2015	689,612	98,520	98,520	98,520	98,520	295,532
3	Pittsfield HydroPower	6/26/2015	303,563	46,704	46,704	46,704	46,704	116,747
4	River-Bell Mill/Elm St Hydro	3/29/2013	54,945	12,924	12,924	12,924	12,924	3,249
5	Woodsville/Rochester (Wyandotte)	5/23/2013	22,253	5,052	5,052	5,052	5,052	2,045
6	Bio Energy	7/31/2015	1,891,824	291,168	291,168	291,168	291,168	727,152
7	Steels pond Hydro	12/20/2014	663,143	110,532	110,532	110,532	110,532	221,015
8	Ashuelot Hydro	12/31/2015	1,214,270	173,472	173,472	173,472	173,472	520,382
9	Avery Dam	12/31/2015	579,042	82,716	82,716	82,716	82,716	248,178
10	Lower Robertson Dam	12/31/2015	1,282,113	183,168	183,168	183,168	183,168	549,441
11	Greggs Falls	12/31/2020	3,431,975	285,996	285,996	285,996	285,996	2,287,991
12	Hopkinton Hydro	11/20/2014	104,182	17,616	17,616	17,616	17,616	33,718
13	Lochmere Dam	1/29/2015	556,920	91,548	91,548	91,548	91,548	190,728
14	Milton Mills Hydro	7/27/2012	317,039	88,464	88,464	88,464	51,647	-
15	Pembroke Hydro	12/31/2020	3,334,419	277,860	277,860	277,860	277,860	2,222,979
16	Totals		15,298,442	1,900,452	1,900,452	1,900,452	1,863,635	7,733,451

			12/31/2009 Balance	12/31/2010 Balance	12/31/2011 Balance	12/31/2012 Balance	6/30/2013 Balance	
17	China Mills	853,142	718,430	583,718	449,006	314,294	-	
18	Fiske Mill Hydro	689,612	591,092	492,572	394,052	295,532	-	
19	Pittsfield HydroPower	303,563	256,859	210,155	163,451	116,747	-	
20	River-Bell Mill/Elm St Hydro	54,945	42,021	29,097	16,173	3,249		
21	Woodsville/Rochester (Wyandotte)	22,253	17,201	12,149	7,097	2,045		
22	Bio Energy	1,891,824	1,600,656	1,309,488	1,018,320	727,152	-	
23	Steels pond Hydro	663,143	552,611	442,079	331,547	221,015	-	
24	Ashuelot Hydro	1,214,270	1,040,798	867,326	693,854	520,382	-	
25	Avery Dam	579,042	496,326	413,610	330,894	248,178	-	
26	Lower Robertson Dam	1,282,113	1,098,945	915,777	732,609	549,441	-	
27	Greggs Falls	3,431,975	3,145,979	2,859,983	2,573,987	2,287,991	-	
28	Hopkinton Hydro	104,182	86,566	68,950	51,334	33,718	-	
29	Lochmere Dam	556,920	465,372	373,824	282,276	190,728	-	
30	Milton Mills Hydro	317,039	228,575	140,111	51,647			
31	Pembroke Hydro	3,334,419	3,056,559	2,778,699	2,500,839	2,222,979	-	
32	Totals	15,298,442	13,397,990	11,497,538	9,597,086	$\boxed{7,733,451}$	-	
33	Accumulated Deferred Income Taxes	(5,783,014)	(5,064,618)	(4,346,222)	(3,627,826)	(2,923,347)	-	
		9,515,428	8,333,372	7,151,316	5,969,260	4,810,104	-	
34	Average Deferred IPP		8,924,400	7,742,344	6,560,288	5,389,682	2,405,052	
35	X % Return (using 9/30/09 return)		8.632%	8.632%	8.632%	8.632%	4.316%	
36	Annual Return		770,397	668,356	566,316	465,263	103,808	$\boxed{2,574,140}$
37	Annual Amortization		1,900,452	1,900,452	1,900,452	1,863,635	7,733,451	15,298,442
38	Total Annual Amortization/Return		2,670,849	2,568,808	2,466,768	2,328,898	7,837,259	17,872,582
39	NPV @ 12/31/09 (incl. return @ 8.632%)			$\boxed{\$11,899,258}$				

Public Service Company of New Hampshire
Cost of Capital
@ Stipulated Rate of Return

Component	Component Ratio	Cost Rate	Weighted Average Cost Rate	Cost Rate Incl. Tax Effect
Common Equity	40.00%	8.000%	3.200%	5.380%
Long-Term Debt	60.00%	5.420%	3.252%	3.252%
	100.00%		6.452%	8.632%

Public Service Company of New Hampshire
Docket No. DE 09-091

Data Request STAFF-02

Dated: 08/14/2009
Q-STAFF-002
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Witness: **Robert A. Baumann**
Request from: **New Hampshire Public Utilities Commission Staff**

Question:
Reference response to NSTF-01, Q-STAFF-002. Please provide the tax implications if the remaining balances of the IPP buyouts and buy downs were to be fully recovered in one year.

Response:
The majority of these transactions resulted in PSNH recording a deferred tax obligation. These deferred taxes are currently being reversed over time as the related regulatory asset is being recovered and amortized.

If the remaining balances of the IPP buy-outs were fully recovered in one year, the related deferred tax obligation would reverse at the established level and in the same time period. The revenues used to recover these assets would be taxed at the current rate. Any differential between current and deferred tax rates would have an earnings impact.