STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DE 09-180

In the Matter of:
Public Service Company of New Hampshire
Proposed Default Energy Service Rate for 2010

Direct Testimony

of

Steven E. Mullen
Assistant Director – Electric Division

December 2, 2009

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 for a revised Energy Service (ES) rate effective with service rendered on and after January 1, 2010. Specifically, I am providing comments regarding the issue of non-migrating customers absorbing proportionally more fixed costs due to other customers migrating to competitive energy suppliers. I also recommend that PSNH prepare a study regarding the continuing operation of Newington Station and whether that plant is still providing benefits to PSNH customers.

Q. Did PSNH request a specific ES rate in its filing?

A. No. Based on its then-current estimate of ES revenues and expenses for calendar year

2010, PSNH provided a preliminary calculation of a 2010 ES rate of 9.31 cents per kilowatt-hour (kWh). That rate would be an increase of 0.28 cents per kWh from the current ES rate of 9.03 cents per kWh.

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

A. Similar to prior ES rate setting proceedings, in its initial filing PSNH provides its then-current estimate of the ES 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 its costs of producing and procuring power for the upcoming year and b) any under- or over-collection of ES costs for the then-current calendar year.

Q. When will PSNH update its calculation of the proposed 2010 ES 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 ES rate?

A. No. PSNH's methodology is consistent with prior ES proceedings.

Q. Other than the rate calculation, did PSNH raise any other issues in its testimony?

A. Yes. PSNH's witness, Robert Baumann, discussed an increased level of customer migration to competitive suppliers currently being experienced by PSNH. At the time his testimony was filed on September 24th, the level of migration was approximately 23% of PSNH's customer load. At a technical session on November 17, 2009, Staff was informed that the level of migration had increased an additional 3%. According to Mr. Baumann, the migration being experienced caused the 9.31 cents per kWh preliminary ES rate to be approximately 5% higher than it would have been absent migration.

Considering that large customers have greater opportunities for accessing the competitive market, when those customers do migrate the result is that the remaining customers, predominately residential and small commercial customers, bear more of PSNH's fixed costs. Mr. Baumann referred to this as an unintended consequence of electric industry restructuring.

Q. Did PSNH offer a potential solution to this problem?

A. In its September 24th filing, PSNH raised the issue and stated that it felt it would be better addressed by vetting the issue with interested parties through technical sessions. PSNH subsequently filed additional testimony on November 23rd describing two potential methods for addressing customer migration and its effect on ES rates.

Q. What were the two methods PSNH described?

A. The first method, identified by PSNH as "Method 1," would involve recovery of "the added costs borne by small customers on PSNH supply...as stranded costs through a non-by-passable rate such as the SCRC."[1] "Method 2" would involve "[r]emov[ing] specific cost items from the ES rate that directly benefit all customers and recover those costs through an existing non-bypassable charge to all customers, such as the SCRC, TCAM and D charges."[2]

Q. What are your thoughts regarding PSNH's proposed Method 1?

A. First, I question PSNH's characterization of some of its supply-related costs as stranded costs. Pursuant to RSA 374-F:2, IV, "[s]tranded costs may only include:

> (a) Existing commitments or obligations incurred prior to the effective date of this chapter;
> (b) Renegotiated commitments approved by the commission; and

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[1] Baumann November 23, 2009 testimony at 6. "SCRC" refers to PSNH's Stranded Cost Recovery Charge.
[2] Ibid. "TCAM" refers to the Transmission Costs Adjustment Mechanism and the "D charge" refers to PSNH's distribution rates.

> (c) New mandated commitments approved by the commission, including any specific expenditures authorized for stranded cost recovery pursuant to any commission-approved plan to implement electric utility restructuring in the territory previously serviced by Connecticut Valley Electric Company.

Supply-related costs stemming from power purchases or from PSNH's generating facilities do not appear to qualify under any of those restrictions. Also, I question whether the collection of certain supply-related costs could be considered a form of exit fee, something that is not a "preferred recovery mechanism" pursuant to RSA 374-F:3, XII (d).

Q. Regarding Method 2 – the potential shift of certain costs to other rate components – do you think that approach has merit?

A. Yes. One way to reduce the amount of fixed costs borne by non-migrating customers is to identify any costs currently included in the ES rate calculation that by their nature more properly belong in other components of PSNH's retail rates. However, this approach merely lessens the burden rather than addressing the underlying issue.

Q. What costs did PSNH specifically identify as costs that should be shifted from the ES rate to other rate components?

A. On page 8 of his November 23rd testimony, Mr. Baumann identified the following costs along with the respective rate components to which those costs could be shifted:

Type of Cost	Amount	Shift to:
Reliability (e.g., VAR support)	$1.4 million	TCAM
Above-market costs of Bio-Energy replacement agreement	$12.5 million	SCRC
Company use energy costs not related to generation	$1.4 million	Distribution

Q. Please comment on the specific costs identified by Mr. Baumann.

A. What all of these costs have in common is that they are incurred in relation to all customers and without respect to potential migration, so they should not be avoided by those customers who choose to receive service from competitive suppliers. The reliability costs identified by Mr. Baumann are calculated based on PSNH's network load (which includes customers receiving service from competitive energy providers) so it would be appropriate for PSNH to recover those costs through its TCAM rate. All of the costs of the power contract that replaced an above-market (at higher rates and over a longer term) rate order with the former Bio-Energy facility are currently being recovered from ES customers. However, the replacement contract would appear to be a "renegotiated commitment" that qualifies for stranded cost treatment. Therefore, the over-market portion of costs associated with that contract would be appropriate for recovery via PSNH's SCRC. Finally, as PSNH's office buildings and distribution facilities are used in the provision of service to all of its customers – migrating and non-migrating – those costs are more appropriate for recovery through PSNH's distribution charge, with one caveat. To the extent that workers in general office buildings, such as PSNH's Energy Park, spend a portion of their time on ES-related business, a portion of the company use should remain in the ES rate using applicable allocation procedures.

Q. If the costs you just mentioned relate to all PSNH customers, migrating and non-migrating, why have they up until now been included in the ES rate calculations?

A. In most cases, the costs have been included in the ES rate since PSNH's rates were first unbundled in May 2001. With minimal migration in PSNH's service territory until recently, the avoidance of those costs by migrating customers was not readily apparent.

Q. To this point in the proceeding, have discussions of the migration issue and its impact on ES rates been extensive?

A. No.

Q. In your view, what types of items should be included in such discussions?

A. I think a meaningful discussion of the migration/cost avoidance/cost shifting issue should include, but not be limited to, such potential topics as pricing differentials for the customer classes, stay-out provisions, utilization of competitive solicitations, and cost allocation issues among the various rate classes. At the same time, parties must remain mindful of PSNH's obligation to use its generation assets for the benefit of all customer classes and other restrictions found in RSA 369-B and RSA 374-F. Considering the complexity of the issue, it may be better addressed in a proceeding that does not have an impending rate change deadline (as this one does).

Q. What comments do you have regarding Newington Station?

A. In recent years, Newington Station has become increasingly uneconomic and, as a result, its capacity factor has steadily decreased from 55.9% in 2003 to 3.3% in 2008. For 2010, PSNH is currently estimating a capacity factor for Newington Station of 0.2%. As the capacity factor has decreased, the revenues associated with the plant have been exceeded by the plant-related expenses. If this was just a one-year phenomenon, then it could be viewed as an aberration; however, the situation has steadily worsened. This issue was also briefly addressed in the recent testimony of Staff's consultant, Michael D. Cannata, Jr. in the proceeding to review PSNH's 2008 reconciliation of its actual 2008 ES and SCRC costs and revenues, Docket No. DE 09-091. With regard to the economics of operating Newington Station, Mr. Cannata stated that "if the subject is ripe for review that a separate proceeding be initiated that considers that complexities of valuing Newington going forward." I see this subject as one that is ripe for review.

Q. How has PSNH answered questions regarding the operation of Newington Station?

A. While recognizing the fact that revenues have fallen short of expenses, PSNH has stated that Newington Station provides a valuable hedge against high energy prices. As stated by PSNH in its response to Staff Set 1, question #12:

> Even when it is not dispatched, Newington will be on standby as a valuable physical hedge against market volatility (i.e. it will provide a ceiling price on supplemental power and/or replacement power). The availability of 400 MW of reserve energy does not have a direct quantifiable economic impact on the forecasted ES expenses; however, it does not obviate the need to consider alternative methods to manage volatility (e.g. energy call options and/or replacement power insurance for short-duration outages).

While it may be difficult to quantify the value of the hedge, the price of the hedge can be seen as the excess of plant-related expenses over plant-related revenues.

Q. Other than the decreased capacity factor, do you see any other potential future issues regarding Newington Station?

A. A significant benefit of Newington Station is the amount of capacity revenue PSNH receives based on the unit's capacity value. For 2010, PSNH has estimated it will receive slightly more than $20 million in capacity revenue attributable to Newington Station. However, with the end of the forward capacity market transition payments in May 2010 and lower future capacity prices resulting from the forward capacity auctions, it is possible that the gap between expenses and revenues will widen.

Q. What then do you recommend regarding Newington Station?

A. In light of the economic circumstances regarding Newington Station and its operation, I recommend that PSNH prepare a study regarding the benefits and costs of its continued ownership and/or operation of Newington Station and whether or not the plant will continue to provide benefits to PSNH customers. The study should include a forecast of plant-related revenues and expenses as well as analyses of other relevant factors such as local or regional reliability, fuel diversity, fuel and energy price forecasts, the value of the hedge provided by Newington Station, whether the hedge could be provided through alternative means and at what cost, etc.

Q. When do you recommend PSNH file such a study?

A. Considering that PSNH is due to file it next Least Cost Integrated Resource Plan (LCIRP) in May 2010, that is one possible docket for the results of the study to be examined. However, such a study does not necessarily need to be tied to the LCIRP docket and could be filed independently or as part of this current ES docket (which will remain open for purposes of a mid-year review of the ES rate). Ideally, it should be filed early enough to be reviewed and analyzed before next year's ES rate filing is made.

Q. Does this conclude your testimony?

A. Yes, it does.