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N.H.P.U.C. Case No.	DE 07-097
Exhibit No.	3
Witness	

COM FILE

November 9, 2007



Ms. Debra A. Howland  
Executive Director & Secretary  
New Hampshire Public Utilities Commission  
21 South Fruit Street, Suite 10  
Concord, New Hampshire 03301

Re: DE 07-097 Public Service Company of New Hampshire  
Proposed Stranded Cost Recovery Charge for 2008  
Staff Testimony

Dear Ms. Howland:

Attached please find the Testimony of Steven E. Mullen, Utility Analyst IV on behalf of the Staff of the New Hampshire Public Utilities Commission in the above reference docket.

If you have any questions, please feel free to contact me.

Sincerely,

Suzanne G. Amidon  
Staff Attorney

Attachments

CC: Service List

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STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

DE 07-097

In the Matter of:  
Public Service Company of New Hampshire  
Proposed 2008 Stranded Cost Recovery Charge

Direct Testimony

of

Steven E. Mullen  
Utility Analyst IV

November 9, 2007

**Public Service Company of New Hampshire  
DE 07-097**

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

2 A. My name is Steven E. Mullen. I am employed by the New Hampshire Public Utilities  
3 Commission in the position of Utility Analyst IV. My business address is 21 South Fruit  
4 Street, Suite 10, Concord, New Hampshire.

5 **Q. Please summarize your educational background and work experience.**

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

12  
13 From 1989 through 1996, I was employed as an accountant with Chester C. Raymond,  
14 Public Accountant in Manchester, NH. My duties involved preparation of financial  
15 statements and tax returns as well as participation in year-end engagements. In 1996, I  
16 joined the Commission as a PUC Examiner in the Finance Department. In that capacity I  
17 participated in field audits of regulated utilities' books and records in the electric,  
18 telecommunications, water, sewer and gas industries. I also performed rate of return  
19 analysis, participated in financing dockets and presented oral testimony before the  
20 Commission. In 1998, I was promoted to the position of Utility Analyst III and  
21 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 my current position of Utility Analyst IV in 2007. I am responsible for the evaluation of rate, financing and accounting filings, including recommending changes in revenue levels. 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 general industry matters.

8 **Q. Have you previously testified before this Commission?**

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

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide comments and recommendations regarding  
Public Service Company of New Hampshire's ("PSNH" or "Company") September 7,  
2007 filing of its proposed adjustment to its Stranded Cost Recovery Charge ("SCRC")  
effective January 1, 2008. While PSNH did not propose a specific adjustment to the  
SCRC in its filing, it did state that its preliminary estimate was a reduction to the SCRC  
16 rate of 0.55 cents per kilowatt-hour ("kWh") from its current average level of 1.43 cents  
17 per kWh to 0.88 cents per kWh.

18 **Q. Please summarize your testimony.**

19 A. While I don't have any problems with the initial calculations proposed by PSNH in its  
20 filing, I do recommend that the filing be revised to include the following items: a)  
21 \$37,500 of McLane Dam buyout costs; b) a \$10,085,529 credit related to certain Clean  
22 Air Act equipment installed on PSNH's generating units in the 1990s; and c) a  
\$2,129,897 credit for accumulated SO<sub>2</sub> allowance sales proceeds. Including these items –  
termed by PSNH the "net obligations" – in the 2008 SCRC rate calculation would reduce

1 PSNH's preliminary estimate of 0.88 cents per kWh to 0.74 cents per kWh.

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

3 A. Similar to DE 06-134, the proceeding to determine PSNH's 2007 SCRC rate, PSNH  
provided in its initial filing its then-current estimate of the SCRC rate. The rate  
calculation will be subsequently updated just prior to hearing to adjust for the most recent  
information pertaining to a) PSNH's estimates of the above-market cost of purchases  
7 from independent power producers ("IPPs") and b) updated 2007 actual data.

8 **Q. When will PSNH update its calculation of the proposed 2008 SCRC rate in this  
9 proceeding?**

10 A. Pursuant to the approved procedural schedule, PSNH will file updated information on  
November 21, 2007, with the hearing scheduled to be held on November 28.

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

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

15 **Q. Please provide some background information on each component of the "net  
16 obligations" for which you recommend inclusion in the 2008 SCRC rate calculation.**

17 A. Those items are described in detail in PSNH's testimony in the proceeding to determine  
18 its 2008 Energy Service ("ES") rate, Docket DE 07-096, but I will provide a brief  
description of each.

The McLane Dam buyout costs represent the Commission-approved amount PSNH paid  
to buyout the McLane Dam hydroelectric project in Milford, New Hampshire in 1997<sup>1</sup>.

The \$10 million Clean Air Act obligation relates to emission reduction equipment

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<sup>1</sup> See Public Service Company of New Hampshire, 82 NHPUC 61 (Order No. 22,497) February 10, 1997.

installed on PSNH's generating units in the 1990s and stems from differences between the amount of depreciation expense collected through the former Fuel and Purchased Power Adjustment Clause over the period June 1995 through April 2001 and the amount of depreciation recorded on PSNH's books during the same time period. Finally, the \$2 million credit for SO<sub>2</sub> allowance auction proceeds is comprised of the following: i) a \$540,000 balance (from SO<sub>2</sub> allowance auctions) in a conservation and load management ("C&LM") funding account that existed at the onset of electric industry restructuring on May 1, 2001, and ii) SO<sub>2</sub> allowance auction proceeds from May 1, 2001 through June 30, 2007.

According to PSNH, at the time of the Restructuring Settlement Agreement in DE 99-099, it intended to wrap all of the "net obligation" amounts into the determination of net sale proceeds when, as originally contemplated, PSNH sold its fossil and hydro generating units. As we are all aware, subsequent law changes resulted in PSNH retaining ownership of those units. As a result, the "net obligations" remain on PSNH's books.

**Q. How have the "net obligations" been treated by PSNH since electric industry restructuring became effective?**

A. PSNH has considered these items to be generation-related and has included them as additions or reductions to its generation/Energy Service rate base.

**Q. How had PSNH proposed to deal with each of these items?**

A. PSNH proposed to include all the items in the calculation of its 2008 Energy Service rate.<sup>2</sup> Its petition for approval of the 2008 ES rate was filed on September 7, 2007,

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<sup>2</sup> See DE 07-096, testimony of Robert A. Baumann.

1 simultaneously with the current petition to adjust the SCRC charge. DE 07-096 is  
2 following the same procedural schedule as the instant proceeding, and I am also filing  
3 testimony in that docket today.

4 **Q. Considering that PSNH has been including the net obligations in its Energy Service**  
5 **rate base, why do you disagree with PSNH's inclusion of the "net obligations" in its**  
6 **2008 ES rate calculations?**

7 A. I disagree for a couple of reasons. First, none of the three items has anything to do with  
8 projected 2008 ES costs. PSNH is proposing to charge or credit the "net obligations"  
9 against its Energy Service costs as a one-time means of removing those items from its  
10 books. Secondly, all three of the items originated and/or accumulated in prior years. To  
11 the extent that a PSNH customer will be receiving Energy Service from a competitive  
12 supplier in 2008, that customer will not receive the benefit of the net credit the "net  
13 obligations" provide to the 2008 ES rate. Crediting the "net obligations" against the 2008  
14 SCRC rate calculations, however, ensures that as wide a customer base as possible  
15 receives the benefit of the rate credit.

16 **Q. Are there potential alternatives to the treatment of any of the "net obligations"**  
17 **you've described above?**

18 A. One alternative is to apply the initial \$540,000 of the SO<sub>2</sub> allowance amount to C&LM  
19 programs as that was the original target of the funds. I would caution, however, that such  
20 action be taken only if there is a definite plan for using the funds. The Commission could  
21 consider including the \$540,000 in the current CORE energy efficiency program docket,  
22 DE 07-106.

23 **Q. If the \$540,000 was applied to current C&LM programs rather than crediting to**  
24 **customers via the SCRC, how would that change the proposed 2008 SCRC rate?**

1 A. In that case, PSNH's preliminary estimate of the 2008 SCRC rate 0.88 cents per kWh  
2 would be reduced to 0.75 cents per kWh rather than the 0.74 cents per kWh mentioned  
3 earlier in my testimony. Attachment SEM-1 shows my calculation of the changes to the  
4 SCRC rate if a) all of the "net obligations" are included in the SCRC rate calculation, and  
5 b) \$540,000 of the SO<sub>2</sub> allowance auction proceeds are instead applied to current C&LM  
6 programs.

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.

DE 07-097  
Public Service Company of New Hampshire  
Proposed 2008 SCRC Rate

Impact on Proposed Rate of Including "Net Obligations" from DE 07-096

Changes to Proposed SCRC Rate if all of the "Net Obligations" are Included:

	Projected 2008 Stranded Costs (As filed)	McLane Dam Costs	CAAA Credit	SO2 Allow. Credit	Staff Revised SCRC
Part 1 - Rate Reduction Bonds	\$ 63,170				
Part 2 - Ongoing SCRC costs	7,854				
Part 2 - 2007 estimated SCRC under/(over) recovery	3,278				
Total updated SCRC cost	\$ 74,302	\$ 38	\$ (10,086)	\$ (2,130)	\$ 62,124
Forecasted Retail MWH Sales	8,402,270	8,402,270	8,402,270	8,402,270	8,402,270
Forecasted overall average SCRC rate - cents per kWh	0.884	0.000	(0.120)	(0.025)	0.739

Changes to Proposed SCRC Rate if \$540,000 of SO2 Allowance Credit is Applied to C&LM:

	Projected 2008 Stranded Costs (As filed)	McLane Dam Costs	CAAA Credit	SO2 Allow. Credit	Staff Revised SCRC
Part 1 - Rate Reduction Bonds	\$ 63,170				
Part 2 - Ongoing SCRC costs	7,854				
Part 2 - 2007 estimated SCRC under/(over) recovery	3,278				
Total updated SCRC cost	\$ 74,302	\$ 38	\$ (10,086)	\$ (1,590)	\$ 62,664
Forecasted Retail MWH Sales	8,402,270	8,402,270	8,402,270	8,402,270	8,402,270
Forecasted overall average SCRC rate - cents per kWh	0.884	0.000	(0.120)	(0.019)	0.746