

Before the
STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 11-216

In the Matter of:
Public Service Company of New Hampshire
Petition to Establish an Alternative Default Energy Service Rate

Direct Testimony
of
Steven E. Mullen
Assistant Director – Electric Division

August 24, 2012

**Public Service Company of New Hampshire
DE 11-216**

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.

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, New Hampshire. 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

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

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

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

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

15 A. The purpose of my testimony is to provide a recommendation concerning Public Service
16 Company of New Hampshire's (PSNH) April 27, 2012 petition to establish an alternative
17 default energy service rate (Rate ADE). PSNH proposed Rate ADE as the result of the
18 Commission's order in DE 10-160, *Investigation into the Effects of Customer Migration*.¹
19 Included in that order was a directive of the Commission for PSNH to "develop and file a
20 specific tariff proposal"² that would allow for a full evaluation of "the current
21 circumstance, when the default E[nergy] S[ervice] rate is greater than the market rate, by

¹ Order No. 25,256 (July 26, 2011).

² Id. at 33.

1 offering a rate that exceeds its marginal cost of default service, but is less than the
2 average cost.”

3 **Q. Please summarize the recommendations contained in your testimony.**

4 A. I recommend that the Commission approve PSNH’s request to establish Rate ADE, but
5 on a trial basis as a thirty-six month pilot. Further, PSNH’s proposed twenty-four month
6 term of service should be reduced to twelve months. In addition, PSNH will need to a)
7 perform new rate calculations, and b) develop a process for notifying customers in
8 advance that, in the event of the closure of the rate to new customers due to an increase in
9 forecasted marginal costs, Rate ADE will be closed to new customers as of a certain date.

10 **Q. The cover letter of PSNH’s April 27 filing describes the proposed Rate ADE as a**
11 **“redesigned” Rate ADE. Did PSNH previously file for approval of Rate ADE?**

12 A. Yes. PSNH initially filed a proposal for Rate ADE on September 23, 2011. Following a
13 hearing on the proposal, the Commission issued an order denying the petition³ and
14 highlighting three main concerns with the proposal which I have paraphrased below:⁴

- 15 1. As PSNH proposed to adjust Rate ADE twice a year, in January and July, the
16 pricing of Rate ADE may not reflect market prices. Therefore, significant and
17 unexpected market swings could result in increased costs to customers remaining
18 on PSNH’s Rate DE or a denial of the benefit intended by Rate ADE.
19
- 20 2. Rate ADE was proposed to be fixed for a six-month period. The ability of
21 customers to move back and forth from Rate ADE to competitive supply options
22 during that time created a possibility that PSNH would under-recover costs in
23 Rate ADE, which would result in higher costs to Rate DE customers (since over-
24 and under-recoveries of costs in Rate ADE would flow to Rate DE).
25
- 26 3. PSNH proposed the inclusion of a one cent per kilowatt-hour (kWh) adder in Rate
27 ADE. However, the Commission found that the record did not support the
28 calculation of the adder and expressed concern that the adder may not collect

³ Order No. 25,320 (January 26, 2012).

⁴ Id at 15-16.

1 sufficient revenue to cover unexpected price spikes in the marginal cost of
2 electricity used to supply Rate ADE load.

3
4 The proposal filed on April 27, 2012 is PSNH's attempt to address the Commission's
5 concern; hence the description as "redesigned."

6 **Q. Please explain how PSNH attempted to address each of the Commission's concerns.**

7 A. With respect to the first concern, PSNH proposed to calculate the pricing for Rate ADE
8 annually—based on a forecast of marginal costs plus an adder—and then monitor its
9 forecasted marginal costs on a monthly basis. If PSNH's projected marginal costs for the
10 remainder of the annual period have increased by 75% or more of the amount of the
11 adder, then PSNH would file a request with the Commission to increase Rate ADE for
12 the last six months of the annual period.

13 **Q. Does that mean that the pricing for Rate ADE, after annually being established for**
14 **a twelve-month period, may then change a maximum of one time during each year,**
15 **i.e., at the six-month mark?**

16 A. Yes, if I understand PSNH's proposal correctly.

17 **Q. What happens if PSNH's forecast of marginal costs decreases after initial**
18 **establishment of the rate?**

19 A. PSNH has stated that it will use the same criteria for proposing a decrease to the rate that
20 it will use for proposing an increase to the rate.⁵ In its testimony, PSNH explained that
21 although there would not be an urgent need to decrease the rate as no under-recovery
22 flowing to Rate DE would result (due to Rate ADE being increasingly above-market and,
23 therefore, associated revenues being in excess of market costs), it would still be necessary
24 to decrease the rate to "preserve the benefits" to other customers. In other words, if Rate

⁵ See Attachment SEM-1, PSNH's response to Staff Set #2, Question #4.

1 ADE is not decreased accordingly, then customers will most likely take advantage of
2 competitive supply options rather than continue to receive service under Rate ADE.
3 Under that scenario, those customers would no longer provide a “benefit” to other
4 customers through the revenue associated with the adder included in the Rate ADE
5 pricing.

6 **Q. How did PSNH address the Commission’s second concern?**

7 A. In response to the concern regarding customers’ ability to move back and forth between
8 Rate ADE and competitive supply options during what was originally proposed as a six-
9 month fixed rate period, PSNH proposed to close Rate ADE to new customers in the
10 event that projected marginal costs increase by more than 75% of the adder (as described
11 earlier).

12 **Q. For how long would the rate be closed to new customers?**

13 A. According to PSNH’s testimony, the rate would be closed only until the next adjustment.

14 **Q. How would the closure of Rate ADE take effect?**

15 A. PSNH testified that a hearing would not be necessary. Rather, PSNH envisioned a
16 process whereby it would file monthly information with the Commission regarding its
17 forecasted marginal costs. If those forecasted costs were to increase by 75% or more of
18 the amount of the adder, then it would include with its filing tariff pages indicating the
19 closure of Rate ADE which could then either be approved by Commission order or be
20 allowed to go into effect by operation of law.

21 **Q. How would PSNH’s customers be given notice of the closure of Rate ADE?**

22 A. That is uncertain at this time. In response to a discovery request, PSNH only stated that it

1 “has not yet determined how it will notify customers in the event the rate is closed.”⁶

2 **Q. How did PSNH address the Commission’s third concern that its proposed one cent**
3 **per kWh adder was not supported by the record?**

4 A. Rather than a simple one-cent per kWh adder, PSNH proposed that the adder be
5 calculated based on the non-operating costs⁷ of the wet flue gas desulphurization
6 scrubber recently installed at its Merrimack Station generating plant. At the time of its
7 April 27 filing, PSNH calculated the adder at 1.03 cents per kWh. Details concerning
8 that calculation can be found in Attachment 5 to the April 27, 2012 testimony of Messrs.
9 Hall and White.

10 **Q. With the inclusion of the adder, what was the proposed total Rate ADE included in**
11 **PSNH’s April 27 filing?**

12 A. In that filing, PSNH proposed a Rate ADE of 6.40 cents per kWh to be effective July 1,
13 2012, comprised of a marginal cost component of 5.37 cents per kWh and the adder of
14 1.03 cents per kWh.

15 **Q. Other than the changes described above, did PSNH retain its original design**
16 **components for Rate ADE?**

17 A. Yes.

18 **Q. Do you have any suggested changes to any of those design components?**

19 A. Yes. Specifically, PSNH has proposed that the term of service under Rate ADE be
20 twenty-four months. That is, for any customer served by a competitive supplier for at
21 least twelve consecutive months who returns to PSNH and receives service under Rate
22 ADE, that customer shall remain on Rate ADE for a period of twenty-four months and

⁶ See Attachment SEM-2, PSNH’s response to Staff Set #2, Question #3.

⁷ The non-operating costs of the scrubber are depreciation, property taxes and return on rate base.

1 not be eligible to return to Rate DE after that period has expired. During the twenty-four
2 month period, however, the customer would be free to return to competitive supply
3 options. Rather than twenty-four months, I recommend that the term of service under
4 Rate ADE be reduced to twelve months. If PSNH's concern is to be better able to
5 forecast its load and supply requirements for Rate DE, it is my opinion that a twelve-
6 month service period under Rate ADE should suffice.

7 **Q. In the event the Commission approves the design of Rate ADE, would a new rate
8 calculation need to be performed?**

9 A. Yes. As the effective date of the rate would change, all calculations supporting the
10 development of the rate would need to be updated.

11 **Q. What is your overall assessment of PSNH's redesigned Rate ADE proposal and how
12 it addressed the Commission's concerns regarding the initial proposal for the rate?**

13 A. Based on my review of the Commission's concerns and PSNH's proposed adjustments to
14 its design of Rate ADE, PSNH has adequately addressed the concerns while developing
15 and filing a tariff proposal consistent with the directive in the Commission's order in DE
16 10-160.

17 **Q. If Rate ADE is approved, should it be on a permanent basis?**

18 A. No. If the Commission approves PSNH's proposed Rate ADE, my recommendation is
19 that it should do so on a pilot basis. Given the various moving parts involved in the
20 development of the rate including, but not limited to, the customer migration rate to/from
21 PSNH's Rate DE and the costs of the scrubber project, it would be instructive to monitor
22 the activity in Rate ADE to determine what, if any, benefit has been provided to Rate DE
23 customers and whether any detrimental impacts arise due to the existence and utilization

1 of the rate.

2 **Q. What length of a pilot period do you recommend?**

3 A. While my initial inclination is for a twenty-four month pilot, I recognize that PSNH has
4 proposed an up to nine month delay in making the rate available to residential and small
5 commercial customers to provide time for related programming changes in the customer
6 billing system. Therefore, a thirty-six month pilot period should allow for sufficient
7 analysis of trends and impacts for all customer classes.

8 **Q. Do you have any further comments or suggestions regarding the proposed Rate**
9 **ADE?**

10 A. Yes. Given that PSNH plans to price Rate ADE in excess of marginal costs, it is difficult
11 to predict how many, if any, customers will opt to take service under that rate given that
12 competitive supply options exist. One of the determining factors will be how PSNH's
13 adder compares to the margin included in retail rates by competitive suppliers—
14 information which we do not have in this proceeding. To the extent that PSNH's adder
15 exceeds competitive suppliers' margins, one would expect that, all else being equal, not
16 many, if any, customers would choose to receive service under Rate ADE. If, however,
17 the amount of PSNH's adder is less than or similar to the margin charged by competitive
18 suppliers, then the results could be quite different.

19 **Q. If no customers receive service under Rate ADE, will there be any negative cost**
20 **impacts to customers through other rate components?**

21 A. No. PSNH stated in discovery responses⁸ that it would not seek to recover any costs of
22 modifying its billing system to accommodate Rate ADE. Further, Rate DE would

⁸ See, for example, Attachment SEM-3, PSNH's response to OCA Set #2, Question #3.

1 continue as it exists today and PSNH's other rate components would be similarly
2 unaffected.

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

4 A. Yes, it does.