

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 07-096

In the Matter of:
Public Service Company of New Hampshire
Proposed 2008 Energy Service Rate

Direct Testimony

of

Steven E. Mullen
Utility Analyst IV

November 9, 2007

**Public Service Company of New Hampshire
DE 07-096**

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
12 Public Service Company of New Hampshire's ("PSNH" or "Company") September 7, 2007 filing of its proposed Energy Service ("ES") rate for effect beginning January 1, 2008. While PSNH did not propose a specific ES rate in its filing, it did state that its preliminary estimate was an increase of 0.73 cents per kilowatt-hour ("kWh") from its current level of 7.83 cents per kWh to 8.56 cents per kWh.

17 **Q. Is anyone else filing testimony on behalf of Staff?**

18 A. Yes. Michael D. Cannata, Jr. of The Liberty Consulting Group is providing testimony regarding the status of three recommendations pertaining to power supply issues that were agreed to by PSNH in Docket DE 06-068, the 2005 Stranded Cost Recovery Charge ("SCRC") and ES reconciliation docket. Those issues are also addressed in the testimony of PSNH witness Richard C. Labrecque.

23 **Q. Please summarize your testimony.**

24 A. In its filing, PSNH proposed including certain one-time items in its calculation of the ES

1 rate. I recommend removing four of those items from the ES rate calculations and
2 instead either a) including them in the Stranded Cost Recovery Charge (“SCRC”) rate
3 calculations, b) possibly allocating some of the related dollars to current conservation and
4 load management (“C&LM”) programs, or c) removing the item entirely from any rate
5 calculations, ES or otherwise. The effect of removing those items, the majority of which
6 are actually credits to rates, from the ES rate calculations is an increase to 8.71 cents per
7 kWh from PSNH’s preliminary proposed rate of 8.56 cents per kWh.

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

9 A. Similar to DE 06-125, the proceeding to determine PSNH’s 2007 ES rate (as well as prior
10 ES proceedings), PSNH provided in its initial filing its then-current estimate of the ES
11 rate. The rate calculation will be subsequently updated just prior to hearing to include the
12 most recent information regarding forecasted energy and capacity prices as well as the
13 latest information regarding PSNH’s purchases of supplemental energy.

14 **Q. When will PSNH update its calculation of the proposed 2008 ES rate in this
15 proceeding?**

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

18 **Q. How did PSNH derive its preliminary estimate of 8.56 cents per kilowatt-hour?**

19 A. As part of its filing, PSNH included the prefiled testimony of Mr. Robert Baumann,
20 Director, Revenue Regulation & Load Resources for Northeast Utilities Service
21 Company, an affiliate of PSNH. In his testimony and the supporting attachments, Mr.
22 Baumann provided details supporting PSNH’s calculation of the 8.56 cents per kWh ES
23 rate for the period January 1, 2008 through December 31, 2008. As detailed in Mr.
24 Baumann’s attachments, the preliminary rate was calculated based on PSNH’s analysis of

1 what it forecasts to be its “actual, prudent and reasonable costs” of providing and
2 procuring the power to supply its customers during that twelve-month period.

3 **Q. Do you have any concerns with the methodology PSNH used to calculate the**
4 **proposed ES rate?**

5 A. No. PSNH’s methodology is consistent with prior ES proceedings. As stated earlier,
6 however, I do recommend removing some of the items PSNH included in its calculations
7 from the determination of the ES rate.

8 **Q. Please provide some background information on each component for which you**
9 **recommend removal from the 2008 ES rate calculations.**

10 A. Those items are described in detail in the testimony of PSNH witness Robert A.
11 Baumann, but I will provide a brief description of each.

12
13 Three of the items have been termed by PSNH as the “net obligations.” Those items are
14 as follows: a) \$37,500 of McLane Dam buyout costs; b) a \$10,085,529 credit related to
15 certain Clean Air Act equipment installed on PSNH’s generating units in the 1990s; and
16 c) a \$2,129,897 credit for accumulated SO₂ allowance sales proceeds. The McLane Dam
17 buyout costs represent the Commission-approved amount PSNH paid to buyout the
18 McLane Dam hydroelectric project in Milford, New Hampshire in 1997. The \$10 million
19 Clean Air Act obligation relates to emission reduction equipment installed on PSNH’s
20 generating units in the 1990s and stems from differences between the amount of
21 depreciation expense collected through the former Fuel and Purchased Power Adjustment
22 Clause over the period June 1995 through April 2001 and the amount of depreciation
23 recorded on PSNH’s books during the same time period. Finally, the \$2 million credit
24 for SO₂ allowance auction proceeds is comprised of the following: i) a \$540,000 balance

(from SO₂ 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) SO₂ 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. What is the fourth item you recommend removing from the 2008 ES rate calculations?

The fourth item involves \$147,000 of expenses related to mercury mitigation legislation. Specifically, PSNH incurred consulting costs during 2005 for the purpose of garnering support for certain legislation pertaining to the installation of a scrubber system at PSNH’s Merrimack Station generating facility. Staff recommended removal of those same costs from PSNH’s recent delivery rate proceeding, DE 06-028, as they were not related to the provision of distribution service. Staff also stated that the costs could be considered to be lobbying costs, but that determination did not need to be made in DE 06-028.

Q. How had PSNH proposed to deal with each of the four items you’ve highlighted?

1 A. PSNH proposed to include all the items in the calculation of its 2008 Energy Service rate.
2 Together, they amount to a 0.148 cents per kWh decrease to the proposed 2008 ES rate.

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

6 A. I disagree for a couple of reasons. First, none of the three items has anything to do with
7 projected 2008 energy service costs. PSNH is proposing to charge or credit the "net
8 obligations" against its Energy Service costs as a one-time means of removing those
9 items from its books. Secondly, all three of the items originated and/or accumulated in
10 prior years.

11 **Q. How do you recommend treating the "net obligations?"**

12 A. I recommend that the three items that comprise the "net obligations" be removed from the
13 ES rate calculations and instead be included in the determination of PSNH's 2008 SCRC
14 rate. PSNH's petition for approval of an adjustment to the SCRC rate, Docket DE 07-
15 097, was filed on September 7, 2007, simultaneously with the current petition for a
16 proposed 2008 ES rate. DE 07-097 is following the same procedural schedule as the
17 instant proceeding, and I am also filing testimony in that docket today.

18
19 To further explain, to the extent that a PSNH customer will be receiving Energy Service
20 from a competitive supplier in 2008, that customer will not receive the benefit of the net
21 credit the "net obligations" provide to the 2008 ES rate. Crediting the "net obligations"
22 against the 2008 SCRC rate calculations, however, ensures that as wide a customer base
23 as possible receives the benefit of the rate credit.

24 **Q. Are there potential alternatives to the treatment of any of the "net obligations"**

you've described above?

A. One alternative is to apply the initial \$540,000 of the SO₂ allowance amount to C&LM programs as that was the original target of the funds. I would caution, however, that such action be taken only if there is a definite plan for using the funds. The Commission could consider including the \$540,000 in the current CORE energy efficiency program docket, DE 07-106.

Q. Please explain why you recommend removal of the mercury mitigation costs from the ES rate calculations.

A. As Mr. Baumann explained in his testimony, “[t]he consultants’ expense is a discreet, one-time charge, focusing on a single piece of legislation.”¹ Mr. Baumann further stated that “[t]he consultants helped influence the decision that a scrubber installation was the appropriate Mercury reduction solution for PSNH’s coal fired generating fleet”² and that the efforts of many, including the consultants, reduced the costs of complying with New Hampshire’s mandated mercury reduction requirements. The descriptions of the work of the consultants – i.e., influencing legislation – clearly falls into the realm of lobbying which is prohibited for recovery by electric utilities pursuant to the Commission’s administrative rules. (*See* Puc 310.02, *Recovery of Certain Expenses Prohibited*). So, simply put, no matter the purpose of the lobbying, it is prohibited from recovery from utility customers. That being the case, PSNH should not be allowed to recover those costs via any other rate component.

Q. Has PSNH requested a waiver of Puc 310.02?

A. No, but Mr. Baumann stated that if the Commission were to characterize the expense as a lobbying expense, it would request a waiver of the rule. If PSNH does request a waiver, I

¹ Testimony of Robert A. Baumann, p. 9 at 17.

² *Ibid*, p. 10 at 9-10.

1 recommend the Commission deny the request.

2 **Q. Have you attached a schedule showing the impacts of removing the four items from**
3 **PSNH's preliminary 2008 ES rate calculations?**

4 A. Yes. A schedule showing my computations is included as Attachment SEM-1

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

6 A. Yes, it does.

DE 07-096
Public Service Company of New Hampshire
Proposed 2008 Energy Service Rate

Impact on Proposed Rate of Removing "Net Obligations" from Rate Calculation

	Projected 2008 Energy Service Costs (as filed)	F/H Mercury Mitigation	McLane Dam Costs	CAAA Credit	SO ₂ Allow. Credit	Staff Revised Total
Fossil Energy Costs	\$ 145,996					\$ 145,996
F/H O&M, Depreciation & Taxes	140,830					140,830
Return on Rate Base	41,254					41,254
Ancillary, ISO-NE, Uplift & Capacity Costs	50,556					50,556
Vermont Yankee	6,878					6,878
IPP costs	62,721					62,721
Purchases and Sales	277,837					277,837
Return on ES deferral	(631)					(631)
ES Uncollectible Expense	2,088					2,088
F/H Mercury Mitigation	147	\$ (147)				
Amortization of CAAA, McLane Dam, SO ₂ 2007 ES under/(over) recovery	(12,178)		\$ (38)	\$ 10,086	\$ 2,130	-
	(18,058)					(18,058)
Total Forecasted Energy Service Cost	\$ 697,440	\$ (147)	\$ (38)	\$ 10,086	\$ 2,130	\$ 709,471
Forecasted Retail MWH Sales	8,148,202	8,148,202	8,148,202	8,148,202	8,148,202	8,148,202
Forecasted Energy Service rate - cents per kWh	8.559	(0.002)	(0.000)	0.124	0.026	8.707
		0.148 cents per kWh				