

**New Hampshire Electric Cooperative, Inc.
Before the
New Hampshire Public Utilities Commission**

Stranded Cost Charge

November 15, 2010

1 Q: PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

2 My name is BrendaC.Inman and my business address is New Hampshire Electric
3 Cooperative, Inc., 579 Tenney Mountain Highway, Plymouth, NH 03264.

4 Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

5 I have been employed by New Hampshire Electric Cooperative, Inc. since 1982
6 and currently hold the position of Financial Services Manager. In this position my
7 responsibilities include preparation of rate filings and other documentation filed with
8 the NHPUC and overseeing the operations of the finance and consumer billing
9 departments. Prior to my current position, I held the position of Financial Analyst
10 where my responsibilities included preparation of rate filings and other
11 documentation filed with the NHPUC, financial forecasting and analysis, and
12 miscellaneous other projects for the Cooperative

13 Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

14 I graduated from Plymouth State College in 1982 with an AS in Accounting. I
15 have attended various courses and seminars.

16 Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY COMMISSION?

17 Yes.

18 Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

19 The purpose of my testimony is to explain New Hampshire Electric Cooperative's
20 (NHEC's) proposal for its Stranded Cost Charge for all bills rendered as of January
21 1, 2011. Please refer to Attachment BCI-1 for detail of the Stranded Cost Charge
22 proposed.

23 Q: BY WHAT PERCENTAGE WILL NHEC'S AVERAGE REVENUE / KWH CHANGE ON
24 JANUARY 2011 IF THE COOPERATIVE'S PROPOSAL IS APPROVED?

25 If there were no other changes to the Cooperative's rates, the Cooperative's
26 proposal to decrease its Stranded Cost Charge will cause the Cooperative's average

1 revenue/kWh to decrease 2.49%. Please reference Attachment BCI-2 for the various
2 rate changes by class for Stranded Cost. Please note that Attachment BCI-2 does not
3 include any of the Cooperative's anticipated non-jurisdictional rate changes for
4 January 1, 2011.

5 Q: WHAT EFFECT WILL THE COOPERATIVE'S PROPOSAL HAVE ON AN AVERAGE
6 RESIDENTIAL RATEPAYER'S MONTHLY BILL?

7 If there were no other changes to the Cooperatives rates, the Cooperative's
8 proposal to decrease its Stranded Cost Charge will cause an average residential
9 ratepayer's monthly bill, with usage of 500 kWh to decrease by \$2.35 from \$98.39 to
10 \$96.04. The Cooperative does anticipate other non-jurisdictional rate changes to
11 occur on January 1, 2011 to the Member Service Charge and the Delivery kWh
12 Charge. Since these changes have not yet been approved by NHEC's board of
13 directors, the final impact is still unknown. However, the net of effect of all three of
14 these changes will likely result in an increase to the average residential ratepayer's
15 monthly bill using 500 kWh to approximately \$99.00.

16 Q: PLEASE EXPLAIN THE CALCULATION OF THE PROPOSED STRANDED COST CHARGE.

17 Please refer to Attachment BCI-1. The Cooperative proposes a Stranded Cost
18 Charge of 1.032¢ per kWh effective January 1, 2011 for all members served at the
19 Cooperative's retail tariff rates. The charge is calculated as the total stranded costs
20 for the period divided by the forecast sales, inclusive of ski area load, for the same
21 period. Each year the forecasted sales reflect "weather normalization" of historical
22 sales adjusted for billing days along with projected number of customers and usage
23 per customer. The actual stranded costs and stranded cost recoveries will continue to
24 be reconciled monthly.

25 Q: PLEASE DESCRIBE THE COSTS INCLUDED IN THE STRANDED COST CHARGE FOR THE
26 YEAR 2011.

27 The Stranded Cost Charge includes the amortization of the Seabrook regulatory
28 asset in accordance with PUC approval in Docket DR 98-097, the Cooperative's
29 Revised Compliance Filing. This regulatory asset was established on July 1, 2000
30 when the Sellback Agreement terminated. In Docket DR 98-097 the Commission

1 authorized the establishment of a regulatory asset for Seabrook Stranded Costs equal
2 to the outstanding debt of approximately \$103 million less an approximation for the
3 sale value of the plant net of any required payment to dispose of the Cooperative's
4 decommissioning liability. The Commission also approved the restructuring of the
5 Cooperative's Seabrook debt to completely pay it off within twelve years,
6 substantially reducing the period the Cooperative would otherwise require Stranded
7 Cost recovery. Under the methodology established in Docket DR 98-097, the
8 Cooperative annually increases the regulatory asset for interest accrued and reduces
9 it for debt service payments and for the debt service coverage requirement recovery.
10 The debt service payment and the debt service coverage requirement recovery are
11 booked as amortization expenses. The loan agreement between the Cooperative and
12 its lender, National Rural Utilities Cooperative Financing Corporation ("CFC"),
13 require that the Cooperative maintain a Debt Service Coverage ratio of at least 1.15
14 (average best two out of three years). The Commission approved that the
15 Cooperative amortizes and recovers additional amounts sufficient to allow it to meet
16 that requirement in addition to recovery of the scheduled debt service payment itself.

17 The Stranded Cost Charge also includes the amortization of a regulatory asset
18 associated with the termination of NHEC's power contract with PSNH in accordance
19 with PUC approval in Docket DR 98-097. The Settlement (Termination) Agreement
20 is a comprehensive agreement between the Cooperative and PSNH which resolved
21 the many outstanding disputes between the two parties and allowed the Cooperative
22 and its members to enjoy the benefits of electric supply competition. In accordance
23 with the Settlement Agreement, the Amended Partial Requirements Agreement
24 ("APRA"), the wholesale power supply contract between the Cooperative and PSNH
25 terminated effective January 1, 2000. The Cooperative paid PSNH \$18,000,000
26 which together with the rest of the Settlement, satisfies all stranded cost claims of
27 PSNH against the Cooperative.

28 The Cooperative finances the Termination Payment with a loan from CFC. The
29 Cooperative records the Termination Payment as a regulatory asset and amortizes it
30 according to its scheduled debt service payments and related debt service coverage
31 requirement recovery using a similar methodology as that used for the Seabrook
32 debt-related Stranded Costs.

1 Because 2011 is the final debt service payment year, no additional amounts can be
2 recovered to meet a 1.15 Debt Service Coverage ratio. NHEC's Debt Service
3 Coverage ratio for 2011 will be 1.00. Because NHEC's satisfaction of the required
4 Debt Service Coverage of 1.15 is calculated based upon the average best two out of
5 three years NHEC can satisfy that requirement even with 1.00 Debt Service
6 Coverage for the final year of its stranded cost related financing. The proposed
7 decrease in the Stranded Cost Charge is largely attributable to this change in the Debt
8 Service Coverage requirement for the final year of Stranded Cost Charge collection.

9 Q. THE COOPERATIVE'S STRANDED COSTS FOR THE YEAR 2011 WILL BE THE LAST
10 APPROVED FOR RECOVERY THROUGH A SURCHARGE. WHAT IS THE COOPERATIVE'S
11 PROPOSAL REGARDING THE RECONCILIATION OF ANY UNDER OR OVER RECOVERY
12 BALANCE ON DECEMBER 31, 2011.

13 Because NHEC's remaining Stranded Costs are essentially fixed based upon its
14 known 2011 stranded cost related debt service, NHEC is hopeful that the proposed
15 2011 Stranded Cost Charge will not result in a significant under or over recovery
16 balance at year's end. Of course, any difference between forecasted and actual sales
17 will result in some difference between forecasted and actual end-of-year balances.
18 As an example, the effect of a 3% increase/decrease in forecasted sales for 2011 on
19 the expected costs to be recovered would be approximately \$221,000.

20 NHEC is proposing to minimize the effect of such forecast deviations by monitoring
21 the forecast/actual deviations throughout the year. If such deviations warranted,
22 NHEC would seek Commission approval to adjust the Stranded Cost Charge,
23 probably following the third quarter of 2011, to account for this potential impact to
24 the over/under recovery balance. Depending upon the direction and magnitude of
25 sales deviation, NHEC might seek the increase, decrease or early termination of the
26 Stranded Cost Charge.

27 Q. EVEN WITH A FOURTH-QUARTER ADJUSTMENT THERE WILL LIKELY BE
28 SOME UNDER/OVER RECOVERY BALANCE ON DECEMBER 31, 2011. WHAT
29 DOES NHEC PROPOSE CONCERNING THAT POSSIBILITY?

30 Any remaining over/under recovery balance less than \$25,000, the Cooperative
31 proposes to absorb into their cost of operations. For any over/under recovery
32 balance greater than \$25,000, NHEC would seek Commission approval for a

1 refund/recovery plan. The Commission approved a similar approach concerning
2 NHEC's Restructuring Compliance Filing in a pre-filed testimony by Heather K.
3 Saladino dated September 4, 2001 in Order No. DR 98-097.

4 Q: IN THE COURSE OF NHEC'S PREVIOUS STRANDED COST CHARGE ADJUSTMENT
5 PROCEEDINGS COMMISSION STAFF RAISED A QUESTION CONCERNING NHEC BOARD
6 AUTHORIZATION FOR THE PROPOSED RATE CHANGE. PLEASE ADDRESS THAT
7 QUESTION IN THE CONTENT OF THIS FILING.

8 In docket DE 07-121 Commission Staff raised a question concerning whether or
9 not the record in that proceeding needed to contain documentation of a NHEC Board
10 of Directors' resolution or other express authorization for the proposed Stranded
11 Cost Charge Adjustment. As I understand it, the Staff's question arose out of some
12 uncertainty concerning the role of NHEC's Board of Directors with regard to rate
13 changes for those of NHEC's rates which remain subject to Commission jurisdiction.
14 NHEC, through its counsel, provided Staff with a letter which answered the question.
15 I have attached a copy of that letter to my testimony as BCI-3. The explanation set
16 out in BCI-3 is equally applicable to the proposed Stranded Cost Charge adjustment
17 in this docket as it was to past years' changes.

18 Q: PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR ATTACHMENTS.

19 The attachments are as follows:

20 **BCI-1: 2011 Stranded Cost Charge.** This schedule provides the calculation
21 of the proposed Stranded Cost Charge beginning January 1, 2011.

22 **BCI-2: NHPUC Report of Proposed Changes ("Bingo Sheet").** This
23 schedule compares current revenues to those revenues that would be
24 generated if the proposed Stranded Cost Charge included in this
25 testimony were approved.

26 **BCI-3: December 13, 2007 Letter.**
27

28 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

29 Yes, it does.