STATE OF NEW HAMPSHIRE
before the
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire

Investigation of Merrimack Station Scrubber Project and Cost Recovery
Docket No. DE 11-250

Request for Accounting Statement Clarification
Technical Statement of Stephen R. Hall and Michael L. Shelnitz

I. Introduction

In Order No. 25,246 issued on April 10, 2012 in Docket No. DE 11-250, the Commission granted PSNH's petition for temporary rates for recovery of the cost of the wet flue gas desulphurization system (Scrubber) at Merrimack Station. The Order allowed PSNH to begin temporary rate recovery as of April 16, 2012, at a rate level of 0.98 cents per kWh, through PSNH's Energy Service rate, but did not specify exactly what costs were being recovered through the billing of the temporary rate. Through this filing, PSNH respectfully requests that the Commission issue an accounting statement clarification that would provide specific guidance as to the order of costs that can be recovered through the billing of the temporary rate of 0.98 cents per kWh.

II. Calculation of the temporary rate of 0.98 cents per kWh

The temporary rate calculation of 0.98 cents per kWh used as its basis a portion of ongoing operating costs (66% of $55 million, or $36.6 million) as well as previously deferred Scrubber costs from September 28 through December 31, 2011 ($13.1 million). The total annual costs embedded in the 0.98 cents per kWh rate were $49.7 million ($36.6 million + $13.1 million). These values were summarized in Exhibit 9, Attachment SEM-2 in the docket. The 66% value, referred to in the Order as the "Temporary Rate Cost Percentage", used in the derivation of the recovery level, did not specify what costs would be recovered. It was based on a simple ratio of two separate capital expenditure estimates for the entire Scrubber project and was not based on any current, ongoing or previously deferred costs that are being recovered today through temporary rates. As a result of this lack of specificity, accounting rules prohibit PSNH from currently recognizing the full equity return on the Scrubber asset, causing a timing mismatch on PSNH's books and impairing PSNH's earnings during the time period when temporary rates are in effect. PSNH is therefore seeking an accounting statement clarification that identifies the costs that the resulting temporary rates are recovering. The primary components of defined Scrubber costs are depreciation, O&M and Cost of Capital (consisting of debt costs, equity return and taxes).

III. Procedural schedule delays in this proceeding

On June 15, 2012, a procedural schedule was proposed to the Commission which provided for hearings on permanent rates on January 8 and 9, 2013. On June 26, 2012 the Commission approved that procedural schedule. At that time, it was PSNH's reasonable expectation that hearings in January 2013 would lead to an Order and conclusion of this docket in early 2013. On October 15, 2012, the

Commission suspended the procedural schedule. The recent Commission Order No. 25,445 dated December 24, 2012, established a new procedural schedule that delays hearings until May 14-16, 2013, at the earliest.

IV. Reason for PSNH's request for clarification

The delay in the procedural schedule combined with a lack of specificity on the type and order of costs to be recovered has caused an accounting mismatch on PSNH's books. This mismatch is creating a negative financial impact on PSNH's generation earnings due to PSNH's inability to currently recognize the full equity return on the Scrubber. If there were additional delays in the future, such delays would exacerbate these negative impacts.

While the Commission's Order on Temporary Rates allowed PSNH to begin recovery of a portion of the Scrubber costs, the lack of specificity in that Order with respect to which costs are being recovered limits the amount of Cost of Capital (specifically equity return) that PSNH can recognize on a current basis in its GAAP financial statements. Said another way, the Temporary Rate Cost Percentage (66%) did not specify how the revenues could be applied when collected from customers. Therefore, PSNH can only assume that 66% of all of the components of Scrubber costs are recovered in Temporary Rates. This has resulted in the deferral of the other 34% of the cost components pending permanent rates.

However, provisions of regulatory accounting do not allow PSNH to defer 34% of the equity portion of the Cost of Capital due to the definition of incurred costs[1]. This has resulted in the inability of PSNH to record the equity portion of the deferred Cost of Capital. At the same time, the Cost of Capital components have been incurred at 100%. The result is lower generation earnings now, with a subsequent increase in earnings in later periods when permanent rates go into effect.

This situation creates a mismatch between the deferral for rate purposes and for financial reporting purposes. PSNH is currently supporting 100% of the equity capital burden associated with the Scrubber asset while only recognizing revenue on its books for 66% of such costs.

While this was a situation that PSNH was able to accommodate over the short run, the delays in this docket have caused PSNH to now request an accounting letter clarification from the Commission which would clarify the components of cost included in the current temporary rate and allow PSNH to adequately account for the equity Cost of Capital in conformance with SFAS No. 71.

V. Requested accounting statement clarification

PSNH requests that the Commission issue a secretarial letter allowing the revenues associated with the temporary rate level of 0.98 cents per kWh to be applied by PSNH to first recover the equity return portion of the Cost of Capital of the Scrubber. Such a clarification would satisfy the requirements of SFAS No. 71, would allow PSNH to recognize the equity portion of its Cost of Capital currently, and would eliminate the difference in the deferral for regulatory and GAAP purposes with the operation of this asset, similar to all other assets included in rates.

[1] According to paragraph 9 of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" and related interpretations (codified in ASC 980-340-25-1), an equity return is not an incurred cost, as defined, and cannot be included in a regulatory asset for financial statement reporting.

VI. Impact to customer rates, both now and in the future

There is no impact to rates associated with PSNH's request, nor is there any impact to the level of deferred costs to be recovered in future rates. The requested clarification is for accounting purposes, does not change the allowed level of temporary rates, does not impact the level of costs being deferred for rate making purposes, and would have no impact on the final allowed level of Scrubber costs that may be defined in the Commission's final Order in Docket No. DE 11-250.

The requested accounting statement would allow PSNH to recognize the equity portion of the Cost of Capital components of Scrubber costs in their entirety as they are incurred, consistent with applicable accounting standards, which would result in a matching of such costs to the timing of recovery and use of the asset.