

STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
RECONCILIATION OF ENERGY SERVICE AND STRANDED COSTS FOR CALENDAR
YEAR 2012
PREPARED TESTIMONY OF
MICHAEL L. SHELNITZ

1 **I. Introduction**

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

3 A. My name is Michael L. Shelnitz. My business address is 107 Selden Street, Berlin, Connecticut. I
4 am Team Lead, Revenue Requirements – PSNH for Northeast Utilities Service Company (NUSCO)
5 which provides centralized services to the Northeast Utilities (NU) operating subsidiaries Public
6 Service Company of New Hampshire (PSNH), The Connecticut Light and Power Company,
7 Yankee Gas Services Company and Western Massachusetts Electric Company.

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

9 A. Yes. I have sponsored testimony for the ES and SCRC mid-year rate adjustment filings before the
10 Commission.

11 **Q. Please describe your educational background.**

12 A. I graduated from Northeastern University in Boston, Massachusetts in 1986 with a Bachelor of
13 Science degree in Toxicology. In 1990, I earned a Master's Degree in Business Administration
14 with a Specialization in Accounting from the University of Connecticut.

15 **Q. Please describe your professional experience.**

16 A. Upon graduation, I worked in public accounting for 5 years with Price Waterhouse, LLC, after
17 which I joined Northeast Utilities as an analyst in the Fuel Accounting and Recovery Department.
18 Since joining Northeast Utilities I have held positions of increasing responsibility through my

1 current position as Team Lead, Revenue Requirements – PSNH. As part of my experience, I have
2 sponsored technical statements before the Commission and I have testified in numerous
3 proceedings before the Connecticut Public Utilities Regulatory Authority. I am registered as a
4 Certified Public Accountant (CPA) in the State of Connecticut.

5 **Q. What are your current responsibilities?**

6 A. I am currently responsible for the calculation of revenue requirements for PSNH, as well as the
7 filings associated with PSNH’s Energy Service charge, the Stranded Cost Recovery Charge and the
8 Transmission Cost Adjustment Mechanism. Additionally, I am responsible for certain accounting
9 activities performed by Northeast Utilities Service Company, including ISO-NE billing and
10 standard offer billing for some of Northeast Utilities’ operating companies.

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

12 A. The primary purpose of my testimony is to provide an overview of this filing and to seek approval
13 of the reconciliation between the revenues and expenses contained within PSNH’s Energy Service
14 (ES) and Stranded Cost Recovery Charge (SCRC) rate filings for the twelve-month reporting period
15 January 1, 2012 through December 31, 2012 (“reporting period”).

16 **Q. Will anyone else be providing testimony in support of this filing?**

17 A. Yes. William H. Smagula, Vice President of Generation for PSNH will review the performance of
18 PSNH’s fossil-hydro generation units and Frederick B. White, Supervisor - Power Supply Analysis
19 and Policy, NUSCO will review how PSNH met its energy and capacity requirements during this
20 reporting period. Summary descriptions of the testimony and of my attachments are included in
21 Attachment MLS-1.

22 **Q. Have you calculated replacement power costs as a result of outages incurred during the
23 period as discussed in Mr. Smagula’s testimony?**

24 A. Yes. Attachment MLS-2 summarizes the replacement power costs incurred as a result of forced
25 outages during the period.

26 **Q. Please describe the ratemaking framework that began on May 1, 2001.**

27 A. On May 1, 2001 (Competition Day), PSNH began to recover costs under the Restructuring
28 Settlement. Under the terms of the Restructuring Settlement, PSNH continues to recover costs
29 related to the generation and delivery of electricity, but the specific rate structure now in place
30 segments recovery into various components. The four major components of that segmentation are

1 the Delivery Charge, the Transmission Cost Adjustment Mechanism (TCAM), the SCRC, and the
2 ES rate. Two of the major interrelated rate components, the SCRC and the ES rate are the subject
3 of this proceeding.

4 **II. Energy Service Charge**

5 **Q. Please describe the ES recovery mechanism.**

6 A. Under restructuring, customers have a choice regarding their energy supplier. Customers may
7 contract and obtain energy on their own, or they may choose to continue to receive their energy
8 from PSNH.

9 Under the terms of the Restructuring Settlement and subsequent legislation, PSNH is required to
10 provide ES to those customers who request it. Initially, ES rates were set by statute. Beginning in
11 February 2003, the ES rate for large commercial and industrial customers was based on PSNH's
12 forecast of "actual, prudent and reasonable costs." Beginning in February 2004, the ES rate for all
13 retail customers was based on a forecast of "PSNH's actual, prudent, and reasonable cost of
14 service." The chart below shows the ES rates per kWh which have been in effect since
15 Competition Day.

Rate in Effect:	Rate Set By: Statute or Docket No.	Residential, Small Commercial/Industrial Customers (RSCI)	Large Commercial/ Industrial Customers (LCI)
May 1, 2001 – January 31, 2003	Statute	4.40 cents	4.40 cents
February 1, 2003 - January 31, 2004	RSCI – Statute LCI-DE 02-166	4.60 cents	4.67 cents
February 1, 2004 - July 31, 2004	DE 03-175	5.36 cents	5.36 cents
August 1, 2004 - January 31, 2005	DE 03-175	5.79 cents	5.79 cents
February 1, 2005 - July 31, 2005	DE 04-177	6.49 cents	6.49 cents
August 1, 2005 - January 31, 2006	DE 04-177	7.24 cents	7.24 cents
February 1, 2006 - June 30, 2006	DE 05-164	9.13 cents	9.13 cents
July 1, 2006 - December 31, 2006	DE 05-164	8.18 cents	8.18 cents
January 1, 2007 - June 30, 2007	DE 06-125	8.59 cents	8.59 cents
July 1, 2007 – December 31, 2007	DE 06-125	7.83 cents	7.83 cents
January 1, 2008 - June 30, 2008	DE 07-096	8.82 cents	8.82 cents
July 1, 2008 - December 31, 2008	DE 07-096	9.57 cents	9.57 cents
January 1, 2009 - July 31, 2009	DE 08-113	9.92 cents	9.92 cents
August 1, 2009 - December 31, 2009	DE 08-113	9.03 cents	9.03 cents
January 1, 2010 - June 30, 2010	DE 09-180	8.96 cents	8.96 cents
July 1, 2010 - December 31, 2010	DE 09-180	8.78 cents	8.78 cents
January 1, 2011 - June 30, 2011	DE 10-257	8.67 cents	8.67 cents
July 1, 2011 - December 31, 2011	DE 10-257	8.89 cents	8.89 cents
January 1, 2012 – April 15, 2012	DE 11-215	8.31 cents	8.31 cents
April 16, 2012 – June 30, 2012	DE 11-250	8.75 cents	8.75 cents
July 1, 2012 - December 31, 2012	DE 11-215	7.11 cents	7.11 cents
January 1, 2013 – June 30, 2013	DE 12-292	9.54 cents	9.54 cents

1 **Q. Please describe the costs incurred in providing ES to customers during the twelve-**
2 **month reporting period.**

3 A. ES costs include the fuel costs associated with PSNH's generation as well as costs and
4 revenues from energy and capacity purchases and sales. Also included are costs related to
5 the New Hampshire Renewable Portfolio Standard (RPS) and the Regional Greenhouse
6 Gas Initiative (RGGI). Finally, additional costs include costs associated with IPP power
7 valued at market prices, revenue requirements of generation such as: non-fuel O&M,
8 depreciation, property taxes and payroll taxes, and a return on the net generation
9 investment. Detailed information on the cost of generation is included in Attachment
10 MLS-3 and Attachment MLS-4, page 7.

11 **Q. Are Scrubber costs included in the final results of the reporting period for Energy**
12 **Service?**

13 A. Yes. The Scrubber was operational and used and useful on September 28, 2011. The
14 Scrubber costs relate to the return on the Scrubber, rate base, depreciation, property tax and
15 Scrubber-related O&M, fuel and avoided SO2 costs.

16 **Q. Has there been any recovery of Scrubber costs through ES rates for the period**
17 **January 1, 2012 through December 31, 2012?**

18 A. Yes, the costs of the Scrubber were partially recovered in rates for 2012. In 2011, the
19 Commission opened Docket No. DE 11-250 - Investigation of Merrimack Station
20 Scrubber Project and Cost Recovery to address the issue of Scrubber cost recovery.
21 In that docket, the Commission approved a temporary rate of 0.98 cents per kWh to
22 partially recover Scrubber costs effective April 16, 2012.

23 **Q. What are the final results for ES in the 2012 reporting period?**

24 A. As shown on Attachment MLS-4, page 6, line 9, last column, the ES had a net adjusted
25 under-recovery balance of \$57.2 million at December 31, 2012 (\$66.6 million per books
26 less RPS adjustment in 2013 of \$9.3 million, and reduction in associated carrying costs of
27 \$0.1 million). This net adjusted under-recovery was due primarily to deferred Scrubber
28 costs of \$50.1 million (i.e., scrubber costs incurred in excess of the temporary rate
29 recovery) and an additional \$11.7 million under-recovery associated with additional
30 migration as compared to the amount forecasted in the 2012 mid-year rate adjustment. The

1 remaining net over-recovery of \$4.6 million is due to other net changes from forecasted
2 revenues and expenses during 2012.

3 The cause of the lower RPS cost for 2012 was the Commission's Order in Docket No. DE
4 13-021 that significantly reduced the Class III (existing biomass) RPS requirement from
5 6.5% to 1.4% for 2012. With respect to the deferred Scrubber costs, the Commission will
6 complete its review of Scrubber costs in the aforementioned Docket No. DE 11-250 -
7 Investigation of Merrimack Station Scrubber Project and Cost Recovery, after which it is
8 expected that a full reconciliation of deferred Scrubber costs will take place. As such, the
9 costs associated with the Scrubber are not addressed in this filing.

10 **III. Stranded Cost Recovery Charge**

11 **Q. Please describe the SCRC and its components in more detail.**

12 A. The SCRC recovers costs categorized as "stranded" by New Hampshire law in RSA
13 Chapters 374-F and 369-B. The initial SCRC average rate of 3.4 cents per kWh was agreed
14 to in the Restructuring Settlement which further defined what PSNH's stranded costs were
15 and categorized them into three different parts (i.e. Parts 1, 2, and 3) based on their priority
16 of recovery. Effective June 30, 2006, Part 3 costs were fully recovered.

17 **Q. Please describe the costs that are recovered through the SCRC.**

18 A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs
19 have been securitized through the issuance of rate reduction bonds (RRBs). Part 1 costs
20 consist of the over-market portion of Seabrook regulatory assets, a portion of PSNH's share
21 of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees, legal
22 fees, etc.) while obtaining the RRB financing. RRB interest and RRB fees are also
23 recovered as Part 1 costs. Page 4 of Attachment MLS-4 shows the recovery of Part 1 costs
24 by month.

25 The second tier, Part 2 stranded costs, includes "ongoing" costs consisting of the over-
26 market value of energy purchased from IPPs and the up-front payments made for IPP buy-
27 downs and buyouts previously approved by the Commission, and PSNH's share of the
28 present value of the savings associated with these buy-down and buy-out transactions.

1 PSNH is amortizing these up-front payments over the respective terms of the original IPP
2 rate orders, including a return on the unrecovered costs.

3 In addition, Part 2 costs include a negative return on the credit for deferred taxes related to
4 the Part 1 securitized stranded costs and a return on the unpaid contract obligations to
5 Connecticut Yankee Atomic Power Co., Maine Yankee Atomic Power Co., and Yankee
6 Atomic Energy Corp., net of related deferred taxes. Page 5 of Attachment MLS-4 shows
7 the detailed Part 2 costs by month.

8 **Q. What is your estimate of how long PSNH will continue to bill the SCRC?**

9 A. That depends on the type of cost. Part 1 costs are recovered through the SCRC over the life
10 of the corresponding terms of the rate reduction bonds. Part 1 recovery ended in May 2013
11 since the RRBs were fully amortized as of the end of April 2013.

12 The timing of Part 2 cost recovery through the SCRC is dependent on the type of cost.
13 There are several types of Part 2 costs: ongoing purchases from the IPPs; the amortization
14 of up-front payments associated with buyouts or buydowns of IPP rate orders or contracts;
15 and various returns, including (1) the return on the credit for Part 1 related deferred taxes,
16 (2) returns on Part 2 stranded costs and the outstanding Yankee contract obligations, (3) the
17 return on SCRC deferred balance.

18 Ongoing IPP purchases are obligations that will end when the various rate orders or
19 contracts expire. The up-front payments associated with buyouts or buydowns of IPP rate
20 orders or contracts are also being amortized over the remaining lives of the respective rate
21 orders or contracts. The last such rate order or contract expires in the early 2020s.
22 However, most wood-burning IPP rate orders expired in late 2006 with the last rate order
23 for a wood-fired IPP expiring in 2008. Therefore, Part 2 costs have decreased and will
24 continue to decrease as additional rate orders expire. In addition, the credit for Part 1
25 related deferred taxes pertaining to RRBs ended in May 2013 with the full amortization of
26 Part 1 costs.

1 **Q. Please provide an overview of stranded cost recovery during the 2012 reporting**
2 **period.**

3 A. During the reporting period, the total accumulated balance of Part 1 and 2 costs was
4 reduced by \$68 million from \$87 million at the end of 2011 to \$19 million at the end of
5 2012. See Attachment MLS-4, page 1.

6 **Q. What are the final results for the SCRC in the 2012 reporting period?**

7 A. For the SCRC, the net balance as of December 31, 2012 is an over-recovery of \$8.1 million
8 as shown on Attachment MLS-4, page 1, line 5, 3rd column. The over-recovery primarily
9 relates to lower than forecasted above-market IPP costs, higher than forecasted sales and a
10 disgorgement refund from Constellation Energy that was not forecasted.

11 **Q. Was there activity through the Seabrook Power Contracts in 2012 that affected the**
12 **Seabrook net proceeds figure?**

13 A. Yes. There have been credits to NAEC in 2012 that increased Seabrook net proceeds on a
14 cumulative basis by \$97,000. See Attachment MLS-4, page 7. While there may be
15 additional charges and credits in 2013 that will further impact the net proceeds figure, we
16 do not expect these amounts to be significant. However, we are unable to quantify these
17 charges and credits at this time.

18 **Q. Will these Seabrook-related subsequent charges and credits be passed on to PSNH?**

19 A. Yes, the Seabrook Power Contracts between PSNH and NAEC are still in place for
20 Seabrook sale reconciliation purposes.

21 **Q. Did PSNH file a summary of 2012 benefits for the Northern Wood Power project**
22 **(NWPP)?**

23 A. Yes. Attachment MLS-4, page 11 provides the NWPP revenue target as well as the
24 projected incremental revenues based on Schiller Unit 5 generation, consisting of
25 Renewable Energy Certificates (RECs), Production Tax Credit (PTCs) and RGGI avoided
26 costs. These 2012 credits will be trued up to actual in the 2013 ES/SCRC filing.

27 **Q. Please summarize your request to the Commission.**

28 A. PSNH is requesting that the Commission approve the 2012 ES and SCRC reconciliations
29 and find that PSNH's generation and purchased power costs were prudently incurred.

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

2 **A. Yes, it does.**