

**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 2013
PREPARED TESTIMONY OF
MICHAEL L. SHELNITZ**

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

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

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

8 A. Yes. I have previously sponsored testimony before the Commission in ES and SCRC mid-year rate
9 adjustment and annual reconciliation dockets.

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

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

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

15 A. Upon graduation, I worked in public accounting for 5 years with Price Waterhouse, LLC, after
16 which I joined Northeast Utilities as an analyst in the Fuel Accounting and Recovery Department.
17 Since joining Northeast Utilities I have held positions of increasing responsibility through my
18 current position as Team Lead, Revenue Requirements – PSNH. As part of my experience, I have

1 sponsored technical statements before the Commission and I have testified in numerous
2 proceedings before the Connecticut Public Utilities Regulatory Authority. I am registered as a
3 Certified Public Accountant (CPA) in the State of Connecticut.

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

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

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

11 A. The primary purpose of my testimony is to provide an overview of this filing and to seek approval
12 of the reconciliation between the revenues and expenses contained within PSNH's Energy Service
13 (ES) and Stranded Cost Recovery Charge (SCRC) rate filings for the twelve-month reporting period
14 January 1, 2013 through December 31, 2013 ("reporting period").

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

16 A. Yes. William H. Smagula, Vice President of Generation for PSNH will review the performance of
17 PSNH's fossil-hydro generation units and Frederick B. White, Supervisor - Power Supply Analysis
18 and Policy, NUSCO will review how PSNH met its energy and capacity requirements during this
19 reporting period. Christopher J. Goulding, Manager, Revenue Requirements, will also be providing
20 testimony regarding cash monies remaining in trustee accounts at the time of maturity in 2013 of
21 PSNH's Rate Reduction Bonds (RRBs). Summary descriptions of the testimony and of my
22 attachments are included in Attachment MLS-1.

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

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

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

28 A. On May 1, 2001 (Competition Day), PSNH began to recover costs under the Restructuring
29 Settlement. Under the terms of the Restructuring Settlement, PSNH continues to recover costs

related to the generation and delivery of electricity, but the specific rate structure now in place segments recovery into various components. The four major components of that segmentation are the Delivery Charge, the Transmission Cost Adjustment Mechanism (TCAM), the SCRC, and the ES rate. Two of the major interrelated rate components, the SCRC and the ES rate are the subject of this proceeding.

Energy Service Charge

Q. Please describe the ES recovery mechanism.

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

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

Rate in Effect:	Rate Set By: Statute or Docket No.	Residential, Small Commercial/Industrial Customers (RSCI)	Large Commercial/ Industrial Customers (LCI)
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
July 1, 2013 - December 31, 2013	DE 12-292	8.62 cents	8.62 cents
January 1, 2014 – June 30, 2014	DE 13-275	9.23 cents	9.23 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 those 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. Do any of the aforementioned expenses contain costs that originate from affiliated**
12 **companies that provide services to PSNH?**

13 A. Yes. Some of the expenses noted above contain costs that originate from Northeast
14 Utilities Service Company and NSTAR Electric and Gas Company. In Order 25,647 in
15 docket DE 13-108, Reconciliation of Energy Service and Stranded Costs for Calendar Year
16 2012, the Commission ordered PSNH to include in pre-filed testimony a detailed
17 explanation of PSNH incurred costs services provided by NUSCO or by an agent of
18 NUSCO, including an explanation of the services provided and the costs associated with
19 each service, or category of service. The amount of such services during calendar year
20 2013 was \$10.5 million. The Company is currently compiling categories of services and
21 explanations of services associated with this amount and will file it with the Commission
22 when this work is completed.

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

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

28 **Q. Has there been any recovery of Scrubber costs through ES rates for the period**
29 **January 1, 2013 through December 31, 2013?**

30 A. Yes, the costs of the Scrubber were partially recovered in rates for 2013. In 2011, the
31 Commission opened Docket No. DE 11-250 - Investigation of Merrimack Station Scrubber

Project and Cost Recovery to address the issue of Scrubber cost recovery. In that docket, the Commission approved a temporary rate of 0.98 cents per kWh to partially recover Scrubber costs effective April 16, 2012.

Q. What are the final results for ES in the 2013 reporting period?

A. As shown on Attachment MLS-4, page 6, line 9, last column, the ES had a net adjusted under-recovery balance of \$93.3 million at December 31, 2013. This net adjusted under-recovery was due primarily to deferred Scrubber costs of \$79.9 million (i.e., scrubber costs incurred in excess of the temporary rate recovery). Additionally, the net adjusted under-recovery was also due to \$6.3 million energy costs higher than forecasted, \$4.5 million O&M costs higher than forecasted and \$2.6 million RGGI auction refund that was forecasted in 2013, but not received until 2014.

With respect to the deferred Scrubber costs, the Commission will complete its review of Scrubber costs in the aforementioned Docket No. DE 11-250 - Investigation of Merrimack Station Scrubber Project and Cost Recovery, after which it is expected that a full reconciliation of deferred Scrubber costs will take place. As such, the costs associated with the Scrubber are not addressed in this filing.

Stranded Cost Recovery Charge

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

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

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

A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs have been securitized through the issuance of rate reduction bonds (RRBs). Part 1 costs consist of the over-market portion of Seabrook regulatory assets, a portion of PSNH’s share of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees, legal fees, etc.) while obtaining the RRB financing. RRB interest and RRB fees are also

1 recovered as Part 1 costs. Page 4 of Attachment MLS-4 shows the recovery of Part 1 costs
2 by month.

3 The second tier, Part 2 stranded costs, includes “ongoing” costs consisting of the over-
4 market value of energy purchased from IPPs and the up-front payments made for IPP buy-
5 downs and buyouts previously approved by the Commission, and PSNH’s share of the
6 present value of the savings associated with these buy-down and buy-out transactions.
7 PSNH is amortizing these up-front payments over the respective terms of the original IPP
8 rate orders, including a return on the unrecovered costs.

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

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

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

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

24 Ongoing IPP purchases are obligations that will end when the various rate orders or
25 contracts expire. The up-front payments associated with buyouts or buydowns of IPP rate
26 orders or contracts are also being amortized over the remaining lives of the respective rate
27 orders or contracts. The last such rate order or contract expires in the early 2020s.
28 However, most wood-burning IPP rate orders expired in late 2006 with the last rate order
29 for a wood-fired IPP expiring in 2008. Therefore, Part 2 costs have decreased and will

1 continue to decrease as additional rate orders expire. In addition, the credit for Part 1
2 related deferred taxes pertaining to RRBs ended in May 2013 with the full amortization of
3 Part 1 costs.

4 **Q. Please provide an overview of stranded cost recovery during the 2013 reporting**
5 **period.**

6 A. During the reporting period, the total accumulated balance of Part 1 and 2 costs was
7 reduced by \$6.6 million from \$19.4 million at the end of 2012 to \$12.8 million at the end of
8 2013. See Attachment MLS-4, page 1.

9 **Q. What are the final results for the SCRC in the 2013 reporting period?**

10 A. For the SCRC, the net balance as of December 31, 2013 is an under-recovery of \$6.8
11 million as shown on Attachment MLS-4, page 1, line 5, 3rd column. This under-recovery
12 primarily relates to PSNH crediting to customers for the second time \$5.7M of cash held in
13 RRB trust accounts at the time of maturity of PSNH's RRBs. This cash was previously
14 credited to customers through the SCRC mechanism. As part of the SCRC mid-year rate
15 adjustment portion of docket DE 12-291, PSNH agreed to credit this cash for the second
16 time to customers and subsequently seek its recovery in the 2013 annual reconciliation
17 docket in order to allow for a full discovery process to take place as part of the
18 reconciliation docket. Please see the testimony filed by Christopher J. Goulding, Manager,
19 Revenue Requirements, as part of this filing regarding this RRB trust account cash.

20 **Q. Was there activity through the Seabrook Power Contracts in 2013 that affected the**
21 **Seabrook net proceeds figure?**

22 A. No. There were no credits to NAEC in 2013. If there had been such credits, they would
23 have been reported on Attachment MLS-4, page 7. While there may be additional charges
24 and credits in 2014 that will further impact the net proceeds figure, we do not expect these
25 amounts to be significant. However, we are unable to quantify these charges and credits at
26 this time.

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

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

1 **Q. Did PSNH file a summary of 2013 benefits for the Northern Wood Power project**
2 **(NWPP)?**

3 A. Yes. Attachment MLS-4, page 11 provides the NWPP revenue target as well as the
4 projected incremental revenues based on Schiller Unit 5 generation, consisting of
5 Renewable Energy Certificates (RECs), Production Tax Credit (PTCs) and RGGI avoided
6 costs. These 2013 credits will be trued up to actual in the 2014 ES/SCRC filing.

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

8 A. PSNH is requesting that the Commission approve the 2013 ES and SCRC reconciliations
9 and find that PSNH's generation and purchased power costs were prudently incurred.

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

11 A. Yes, it does.