Liberty Utilities

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 17-___

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Annual Retail Rate Filing

DIRECT TESTIMONY

OF

STEVEN E. MULLEN

March 23, 2017

List of Attachments

Attachment SEM-1	March 22, 2017, E-mail communications with National Grid

I. <u>INTRODUCTION AND QUALIFICATIONS</u>

Q. Please state your full name and business address.

A. My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Utilities Service Corp. ("Liberty") as Manager, Rates and Regulatory. I am responsible for rates and regulatory affairs for Liberty Utilities (Granite State Electric) Corp. ("Granite State" or "the Company") and for Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth").

Q. On whose behalf are you testifying today?

A. I am testifying on behalf of Granite State.

Q. Please state your educational background and professional experience.

A. I graduated from Plymouth State College with a Bachelor of Science degree in Accounting in 1989. I attended the NARUC Annual Regulatory Studies Program at Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School sponsored by Florida State University. I am a Certified Public Accountant and have obtained numerous continuing education credits in accounting, auditing, tax, finance, and utility related courses. From 1989 through 1996, I was employed as an accountant with Chester C. Raymond, Public Accountant in Manchester, NH. My duties involved preparation of financial statements and tax returns, as well as participation in year-end engagements. From 1996 through 2014, I was employed by the New Hampshire Public

Utilities Commission ("Commission") in various roles. Through 2008, I held positions first as a PUC Examiner, then as a Utility Analyst III and Utility Analyst IV. In those roles, I had a variety of responsibilities that included field audits of regulated utilities' books and records in the electric, telecommunications, water, sewer, and gas industries, rate of return analysis, review of a wide variety of utility filings, and presenting testimony before the Commission. In 2008, I was promoted to Assistant Director of the Electric Division. Working with the Electric Division Director, I was responsible for the day-to-day management of the Electric Division, including decisions on matters of policy. In addition, I evaluated and made recommendations concerning rate, financing, accounting, and other general industry filings. In my roles at the Commission, I represented Commission Staff in meetings with utility officials, outside attorneys, accountants, and consultants relative to the Commission's policies, procedures, Uniform System of Accounts, rate cases, financing, and other industry and regulatory matters. In 2014, I was hired by Liberty as the Manager, Rates and Regulatory. I am responsible for rates and regulatory affairs for EnergyNorth and Granite State Electric.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in numerous proceedings before the Commission.

II. <u>PURPOSE OF TESTIMONY</u>

Q. What is the purpose of your testimony?

A. My testimony describes the actions taken by the Company to attempt to discuss potential buydown or buyout of the remaining balance of stranded costs that are currently paid to New England Power ("NEP") through the Contract Termination Charge ("CTC").

Q. Please summarize your testimony.

A. Over the last two years the Company has had communications with National Grid where the issue of a potential buyout or buydown of the remaining CTC obligation has been raised. For various reasons in each year, particularly complicating details regarding ongoing obligations and the requirement for approval of the Federal Energy Regulatory Commission ("FERC") the matter has not progressed beyond preliminary exploration of the concept. In addition, on March 22, 2017, National Grid provided notification that considering the number of uncertainties and additional approval required that it was not in a position to pursue a potential buyout or buydown of the CTC obligation. The Company believes that further exploration of a buyout or buydown is unwarranted.

III. BACKGROUND

Q. Please briefly describe the CTC.

A. The CTC is the mechanism by which NEP charges Granite State for its three percent share of stranded costs related to NEP's provision of full requirements service prior to the time of industry restructuring the Granite State's service territory. The CTC was the subject of retail and wholesale settlements that were considered by the New Hampshire Public Utilities Commission ("Commission") in Docket No. DR 98-012. Further information concerning the specific details can be found in the annual CTC reconciliation filings made with the Commission by NEP, with the most recent being the 2016 reconciliation that was filed on January 30, 2017, and docketed as DE 17-015.

Q. How did the subject of a potential buydown of the remaining CTC obligation first arise?

A. The subject first arose during the hearing in Docket No. DE 14-340, the proceeding for review of the Company's 2014 Annual Retail Rate filing. During that hearing, Staff suggested that with the declining amounts of stranded costs to be recovered over the remaining years of the underlying power contracts that it may be worthwhile to pursue a potential buyout of the remaining CTC obligation.

Q. What was the primary reason discussed during that hearing for investigating a potential buyout of the remaining obligation?

A. Given the relatively low and declining level of costs to be recovered over the remaining years of the CTC related to residual over-market power contract costs, the reason put forth by Staff during the hearing was administrative efficiency. That is, the interest was in the avoidance of the need for filing and review of the annual CTC filing (filed by NEP) and the stranded cost portion of Granite State's annual retail rate filing.

Q. Did that suggestion of a buyout of the CTC obligation take into account all of the particular components and requirements of the CTC settlements?

A. No. Review of the transcript of that hearing reveals that it was a general suggestion to investigate the possibility of a buyout. Perhaps inadvertently, the suggestion to explore a buyout later became a requirement for a <u>buydown</u> when Order No, 25,745 (December 30,

2014) was issued in Docket No. DE 14-340.[1] The requirement to explore a buydown was repeated in Order No. 25,892 (April 29, 2016) that was issued in Docket No. DE 16-346.

Further, NEP's annual CTC reconciliation filings include known amounts such as the scheduled amounts related to residual over-market power contracts, but do not include amounts for potential additional costs or credits that may be experienced in future years related to other aspects of the CTC. Some of those other potential items are discussed later in my testimony. All items need to be taken into account when considering a potential buyout or buydown of the remaining CTC obligation.

Q. Given the interest in administrative efficiency, would a buydown effectively serve that purpose?

A. No, it would not. My experience with buydowns of future utility-related obligations is that they have typically been accomplished through an up-front payment followed by continued future payments, albeit at a lower level of payments than the original agreement. Such an arrangement would not result in administrative efficiency as future filings would still be required. Of course, there are other ways a buydown could be structured. Buydowns have typically been pursued when the future stream of payments includes significant future outlays that, when reviewed on a net present value basis, provide opportunity for significant savings. That is not the situation with Granite State's remaining CTC obligation, which includes the residual value of above-market power

[1] Order No. 25,745 stated "Because the rate is decreasing over time, we believe there is merit to Staff's suggestion that Liberty pursue the negotiation of a buy-down of its CTC obligations. The preparation of the stranded cost portion of the filing adds complexity to the filing and is time consuming for both the Company, which prepares the filing, and for Staff. Recognizing that there are administrative efficiencies with the buy-down of CTC obligations, we encourage the Company to explore such a buy-down."

contracts. Those power contract values are much higher in the near years with only four scheduled years (2017-2020) remaining. As I will discuss in more detail, other components of the CTC further cloud the financial picture.

Q. If a buydown would not provide administrative efficiency, did the Company pursue another option that could possibly achieve the goal of the avoidance of future annual filings?

A. Yes. The Company explored the possibility of a buyout of the remaining future CTC obligation, which was consistent with Staff's original suggestion. A buyout would potentially allow for a one-time payment that, depending on the amount, could either be recovered all in one year or amortized over a few years. Even if amortized, the accounting and reporting would be simplified and the requirement of CTC reporting by NEP would cease.

IV. <u>ACTIONS TAKEN TO EXPLORE A BUYOUT</u>

Q. Please describe the actions taken by the Company to explore the potential for a buyout of the CTC obligation.

A. The Company explored a potential buyout during 2015 and again during 2016 and into 2017. During the months of June and July 2015 the Company had conversations with National Grid to attempt to resolve a handful of financial issues that were outstanding between Granite State, EnergyNorth, and National Grid. Following internal discussions to develop a proposal, the Company attempted to include a buyout of the CTC obligation as part of those negotiations. After some back and forth, the inclusion of a CTC buyout was ultimately not successful.

Q. Were you directly involved in the negotiations with National Grid?

A. No. I was involved in the internal discussions that took place, including the development of a proposal, but was not directly involved in the discussions with National Grid. The discussions were handled by the Company's Vice President of Finance and I was kept apprised of the developments.

Q. Did the Company in Docket No. DE 16-346 explain what actions it took to attempt to negotiate a buyout of the CTC obligation?

A. Yes. However, the Company's witness only had general knowledge of the internal and external discussions and could not provide detail beyond his general understanding of what had taken place. Given that the directive was focused on administrative efficiency rather than any cost savings, the Company expected that a general explanation would suffice to demonstrate that the directive was followed. However, that turned out not to be the case and in Order No. 25,892 "urge[d] Liberty to explore a buy-down of the remaining stranded costs."

Q. Please explain the actions taken by the Company during 2016 and into 2017 to explore a buyout of the remaining stranded costs.

A. In early June 2016, I attended a conference at which representatives of National Grid were present. I raised the issue of a potential buyout/buydown of the remaining CTC obligation and received some potential names of person(s) to contact regarding the issue. As a follow-up, at the end of June 2016 I contacted National Grid's Director of New England Regulatory Affairs to attempt to confirm a contact person particularly since the CTC involves a specific National Grid affiliate, NEP.

To be fully informed about any potential items included in the CTC, other than the residual over-market power contracts that may involve future obligations and/or credits but don't necessarily appear as future amounts in NEP's annual CTC filings, in July 2016 I requested a copy of the original CTC settlement agreements from National Grid. Those agreements date back to 1998 and contain the details of the wholesale and retail settlements. National Grid provided me with a copy of the agreements during the fourth quarter of 2016.

Q. What are some of the ongoing CTC obligations that are not readily apparent by looking at the financial schedules contained in NEP's annual CTC filings?

A. Although many of the categories of costs and obligations are no longer applicable, some of the remaining obligations other than the residual over-market power contracts include:[2]

- Nuclear decommissioning and other post shut-down costs;
- Damages, costs, or net recoveries from claims associated with NEP's former generation business;
- Performance based rate adjustments for nuclear units remaining after divestiture; and
- Environmental response costs.

A common characteristic of each of the above items is that costs may be incurred or credits experienced in future years in currently unknown amounts. These significant uncertainties create huge obstacles for any attempt to buyout the remaining CTC obligation as it is impossible to assign them meaningful monetary values.

[2] Specific details concerning each of these items can be found in the CTC settlement agreements that were filed in DR 98-012.

Q. Please provide an example of one such significant uncertainty.

A. One of the largest uncertainties concerns the category of nuclear decommissioning and other post shut-down costs. As described in greater detail in NEP's DE 17-015 2016 CTC reconciliation filing,[3] the former Yankee nuclear facilities[4] in which NEP was a partial owner, have been involved in ongoing litigation with the U.S. Department of Energy ("DOE") regarding the DOE's failure to provide for off-site storage of spent nuclear fuel and other nuclear waste. The litigation has been taking place over a number of years and has been conducted in phases. As detailed in the DE 17-015 filing, NEP has credited to CTC customers $68.3 million to date and is scheduled to credit an additional $5.9 million in the 2017 reconciliation. In addition, NEP stated that the Yankee plants expect to file Phase IV of the litigation in 2017 covering the years 2013 through 2016, which means that additional credits will likely be forthcoming in the future. Granite State customers have received and continue to receive 3% of any credits flowed through by NEP. Any buyout of the remaining CTC litigation would involve a highly speculative estimate of the amount of any such future credits, and could severely under- or over-estimate the value of those credits, which could be adverse to either Granite State customers or customers in other National Grid jurisdictions who have similar CTC settlement agreements.

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[3] See NEP's 2016 CTC Reconciliation Report in DE 17-015 at pages 5-6.
[4] Connecticut Yankee, Maine Yankee and Yankee Atomic.

Q. If a buyout agreement had been reached with NEP notwithstanding the significant uncertainties you just described, would there be other complicating factors with respect to receiving approval of such an agreement?

A. Yes. Since the CTC agreements involved wholesale arrangements, they were initially subject to FERC approval. In addition, the agreements involved multiple parties in multiple jurisdictions. Approval of a buyout of Granite State's CTC obligation would require approval from the FERC and would most likely also require consent of the other parties to the initial agreements. The cost of such an approval process would far outweigh any potential administrative efficiency benefit.

Q. Has National Grid communicated its views on the subject of a potential buyout?

A. Yes. In light of the communication that has taken place on this issue, National Grid has internally discussed and considered the subject, and on March 22, 2017, provided notification that, for similar reasons as I've described in my testimony, it was not in a position to pursue a buyout of Granite State's remaining CTC obligation. I have included a copy of that notification as Attachment SEM-1.

V. CONCLUSION

Q. What are your final comments?

A. Over the last couple of years the Company has followed the Commission's directives with respect to exploring the potential for a buyout/buydown of the remaining CTC obligation. The remaining obligation contains much more than may be apparent upon review of the annual CTC reconciliation filings. Some of the remaining obligations are currently impossible to quantify and any attempt to do so may be detrimental to either

Granite State's customers or to other customers in New England who are subject to the CTC reconciliation process. Thus, the Company respectfully submits that although it was worthwhile to explore the possibility of a buyout, the inherent complicating factors lead to the conclusion that a buyout by Granite State of its remaining CTC obligation is inadvisable.

Q. Does this conclude your testimony?

A. Yes, it does.

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