STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 11-250

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Investigation of Scrubber Costs and Cost Recovery

Request for Accounting Statement Clarification

Order Denying Request

O R D E R N O. 25,522

June 20, 2013

I. PROCEDURAL BACKGROUND

On January 15, 2013, Public Service Company of New Hampshire (PSNH) filed a letter with a supporting technical statement and related exhibits seeking an accounting statement clarification from the Commission in connection with Order No. 25,346 (April 10, 2012) in Docket No. DE 11-250, Investigation of Scrubber Costs and Cost Recovery. Order No. 25,346 approved temporary rate recovery of the cost of the wet flue gas desulphurization system (Scrubber) installed at Merrimack Station. PSNH said it was making the request because delays in the procedural schedule in DE 11-250 had exacerbated an accounting issue arising from Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. According to PSNH, the issue resulted in a mismatch on PSNH's books between deferrals for rate purposes and for financial reporting purposes. PSNH supplemented its filing on February 20, 2013 with additional information describing the financial effect of the accounting issue.

In granting temporary rates in this proceeding, the Commission stated that it had approved a methodology that "…balances the interests of the Company and the ratepayers…"

and allowed for PSNH to "…achieve a reasonable return on the property, based on its current cost of capital." Order No. 24,346 at 25-26. Nonetheless, PSNH said that Order No. 25,346 lacked specificity regarding what particular costs would be recovered through temporary rates, and due to the operation of SFAS No.71, paragraph 9, PSNH is prohibited from currently recognizing the full equity return on the Scrubber asset. The result, according to PSNH, is a mismatch in the deferral recorded for rate purposes and the deferral recorded for financial reporting purposes, and a negative financial impact on PSNH's reported generation earnings. PSNH said that its inability to recognize the full equity return on the Scrubber resulted in its 2012 before-tax generation earnings being reduced by $19.4 million and claimed that its earnings will continue to erode unless the Commission clarifies the accounting treatment of the equity return for financial reporting purposes. If its request were granted, PSNH said that it would be permitted to recognize the equity portion of the cost of capital component of Scrubber costs in their entirety, as they are incurred, consistent with applicable accounting standards, and the result would be a matching of such costs to the timing of recovery and use of the asset.

On February 22, 2013, the Office of Consumer Advocate (OCA) filed an objection to PSNH's request. In its objection, the OCA said it understood PSNH's request to mean that PSNH would under-report the proportion of costs, such as depreciation and debt costs, currently collected in temporary rates (less than 66%) but fully report the amount of equity return on the Scrubber project investment. Further, the OCA stated that although PSNH did not specify if the requested accounting treatment would benefit its shareholders, executives or officers, it is reasonable to speculate that higher earnings may increase incentive compensation that is dependent on earnings. The OCA also pointed out that PSNH did not claim that any imminent harm would result if the Commission did not authorize the accounting treatment sought. The OCA concluded by stating that PSNH had not demonstrated any extraordinary circumstances that would justify a deviation from normal accounting procedures.

Staff filed its recommendation on April 24, 2013. Staff stated that temporary rates have historically been approved by the Commission with respect to what are commonly referred to as "base rate cases" and that this is the first instance to its knowledge where the Commission approved temporary rates with respect to the recovery of costs associated with an individual capital project. Staff pointed out that temporary rate levels are reconcilable back to the initial date of rate effectiveness, regardless of whether the temporary rates over- or under-recover the "full" costs ultimately approved by the Commission. Staff asserted that the Commission's decision to approve a temporary rate for Scrubber cost recovery at a level below what would be considered "full" recovery is no different than rulings it has made in other cases where it approved temporary rates at a less than "full" level and that the effect of temporary rate recovery at less than the "full" recovery results in a utility not recovering its full equity return for some period of time. While in this particular proceeding that period of time may be somewhat longer than a typical distribution rate case, according to Staff, the concept is still the same and thus the temporary rate recovery in this docket should be viewed in the same manner as temporary rates in a base rate case.

Staff said that PSNH appears to be requesting that priority be given to the recovery of the equity return, as opposed to other costs, which would allow it to recognize the full equity return for financial statement purposes. According to Staff, the Commission has not previously provided an accounting ruling on temporary rates in any other proceeding which gave priority to any particular category of costs for purposes of recovery or for financial statement recognition. Staff speculated that if the Commission were to give priority to the recovery of the equity return in this instance, it could be establishing a precedent that other utilities would seek to use in future requests for temporary rates. Staff opined that, given the potentially varying reasons why a utility might request such disparate treatment of cost components for the purpose of temporary rates, such requests would most likely veer from what Staff viewed as the relatively straightforward intent of RSA 378:27, the statute authorizing the Commission the authority to establish temporary rates.

Further, Staff observed that PSNH's requested accounting clarification of the temporary rate order differs from a request for an interpretation of accounting rules, so it is questionable as to whether the Commission has a basis to render a decision. According to Staff, PSNH does not appear to be questioning the meaning of the cited section of SFAS No. 71, but seems to be requesting that the Commission provide for an accounting of costs in a way not specifically provided for in SFAS No. 71. Staff said that giving such a priority of recovery to one category of costs would be instituting a policy that would be ripe for misuse in the future and could lead to a wide variety of arguments as to whether other types of costs, for whatever reason, should be given priority of recovery.

Staff concluded by recommending that the Commission decline to issue the requested accounting clarification. According to Staff, in PSNH's then most recent NHPUC Form F-1, the reported earned return on equity for the generation segment of its business was 8.39% for the twelve-month period ended December 31, 2012. Although the return is below the Commission-allowed return on equity of 9.81% for PSNH's generation business, Staff stated that the twelve-month period ended December 31, 2012. Although the return is below the Commission-allowed return on equity of 9.81% for PSNH's generation business, Staff stated that the difference does not warrant the Commission amending or otherwise clarifying its ruling on temporary rates in this proceeding in any way that would allow PSNH to give priority of recovery to the equity return for the Scrubber project as opposed to other costs of the project.

II. COMMISSION ANALYSIS

The Commission has reviewed PSNH's request for an accounting statement clarification, OCA's objection to the request and Staff's recommendation. We agree with Staff that there is no reasonable basis for us to distinguish the temporary rate recovery in this docket from any other temporary rate case, and nothing in RSA 378:27 authorizes us to provide for targeted recovery of certain cost components in setting temporary rates. Therefore, we deny PSNH's request.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire's request for an accounting statement clarification is DENIED.

By order of the Public Utilities Commission of New Hampshire this twentieth day of June, 2013.

Amy L. Ignatius
Chairman

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director