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February 22, 2013

Debra Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, New Hampshire 03301-7319

RE: **<u>DE 11-250 PSNH Investigation of Scrubber Costs and Cost Recovery</u>**

Dear Ms. Howland:

On January 15, 2013, Public Service of New Hampshire (PSNH) filed a "Request for Accounting Statement Clarification" along with technical statements of Stephen R. Hall and Michael L. Shelnitz, in the above captioned docket. In this filing, PSNH requested:

> an accounting statement clarification from the Commission which would allow the company 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, which would result in a matching of such costs to the timing of recovery and use of the asset. *Id.*

On February 20, 2013, PSNH filed a "Supplemental Technical Statement" and renewed its request for the "accounting statement clarification."

The Office of the Consumer Advocate (OCA) objects to PSNH's request. There is no compelling reason to change the accounting treatment of the Temporary Rates granted in Docket DE 11-250.

PSNH states that the less-than-full recovery of its Scrubber Costs through temporary rates results in its inability to record in quarterly earnings reports 34% of its authorized equity return on the Scrubber assets. PSNH contends that this results in "lower generation earnings now, with a subsequent increase in earnings in later periods when permanent rates go into effect."[1] In other words, PSNH seeks to recognize earnings now related to assets the prudence of which the Commission has yet to decide.

The Company proposes that the Commission give it the authority to report on its income statement a disproportionate amount of the current Temporary Rate amount as equity return. The OCA understands this to mean that the Company would under report the proportion of depreciation it is currently collecting in temporary rates (less than 66%) and also under report the proportion of debt costs it is collecting in temporary rates (less than 66%) to fully report the amount of equity return on the Clean Air Project investment. PSNH does not specify what impact, if any, the requested accounting treatment would have on the Company's shareholders, but it follows that benefits may flow to shareholders from higher reported earnings. The Company also does not specify if the requested accounting treatment would benefit its executives or officers, but it is reasonable to speculate that higher earnings may increase incentive compensation dependent upon earnings. Further, the Company has not claimed that any harm is imminent (e.g., violation of loan covenant) if the Commission does not authorize the special accounting treatment sought.

PSNH is currently recovering less than all of its purported Scrubber costs as a result of its own request for temporary rates and the Commission's approval of that request. Order No. 25,246 (April 10, 2012). The delays in the procedural schedule are due in part to PSNH's own choices; the pending motion for rehearing filed by PSNH is the reason for the current suspension in the procedural schedule. The subsequent increase in earnings that PSNH seeks to avoid following a determination of permanent Scrubber cost recovery may not come to fruition; PSNH may not be permitted to recover all of its Scrubber costs. In addition, PSNH should not be allowed to record higher equity returns on Scrubber assets if doing so would result in booking less of the temporary rate recovery as depreciation or debt to the detriment of customers.

PSNH should not be permitted to engage in an accounting practice that is inconsistent with provisions of regulatory accounting.[2] The Commission has permitted deviations from normal accounting procedures only in limited cases.[3] PSNH has not demonstrated a basis to conclude that extraordinary circumstances exist here that would justify a deviation from normal accounting

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[1] PSNH Technical Statement (1-15-13), p. 2.

[2] PSNH Technical Statement (1-15-13), p. 2 ("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 do not allow PSNH to defer 34% of the equity portion of the Cost of Capital due to the definition of incurred costs") and fn.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.").

[3] Unitil Energy Systems, Inc., Order No. 24,449 (April 7, 2005), slip op. (denying accounting treatment) at p. 7, citing Unitil Energy Systems, Inc., Order No. 24,269 (January 30, 2004) (Commission granted Unitil's petition for deferral of post-retirement benefits other than pension so that Unitil would be treated similarly to other utilities after the enactment, in the early 1990s, of SFAS 106, which mandated new accounting treatment of certain benefit expenses).

procedures. For these reasons, the OCA recommends that the Commission deny PSNH's request for special accounting treatment of the temporary rates approved in Docket DE 11-250.

Respectfully,

Susan Chamberlin

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Consumer Advocate

cc: Service List via electronic mail