

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:)
Public Service Company of New Hampshire) **DE 11-250**
Investigation of Scrubber Costs and Cost Recovery)

Direct Prefiled Testimony

of

Stephen R. Eckberg

on behalf of

the Office of Consumer Advocate

***Dated:* December 23, 2013**

1 **I. Introduction**

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

3 A. My name is Stephen R. Eckberg. I am employed by the Office of Consumer Advocate (OCA) as
4 a Utility Analyst. The OCA maintains its offices at 21 S. Fruit Street, Suite 18, Concord, NH
5 03229. I include as Attachment SRE-1 to my testimony a statement of my education and
6 experience.

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

9 A. Yes. I have testified on behalf of the OCA in a number of dockets. A listing of those dockets is
10 included with Attachment SRE-1.

11
12 **Q. Is yours the only testimony being sponsored by the OCA?**

13 A. No. The OCA also sponsors the testimony of Matthew Kahal of Exeter Associates, Inc. in this
14 Docket. Mr. Kahal's testimony presents the Consumer Advocate's position regarding prudence in
15 the Company's decision making process leading to the installation of the wet flue gas
16 desulphurization plant ("Clean Air Project," "CAP," "Scrubber") at Merrimack Station.

17
18 **II. Summary of Issues.**

19 **Q. Please summarize the purpose of your testimony.**

20 A. The purpose of my testimony is to identify certain expenses within the total costs of the Scrubber
21 which the OCA believes should not be included in any recovery of costs from ratepayers whether
22 such recovery is authorized by the Commission in this, or any other, Docket.

23
24 **Q. Would you please summarize the expenses you will address in your testimony?**

25 A. Certainly. My testimony will address:

26 1. The "truck wash" facility;

- 1 2. Certain habitat conservation expenses referred to as “permits and fees” which are not
2 appropriate for inclusion in rates;
3 3. The degree to which any prudent investments are used and useful in provision of service
4 to customers.
5

6 **III. Detailed Discussion of OCA Issues.**

7 **Q. You identified your first issue as the “truck wash” facility. Please describe that facility and
8 your concerns.**

9 A. The Company has explained that the purpose of the truck wash facility installed at Merrimack
10 Station as part of the CAP is to clean the bed of large trucks used to haul coal to Merrimack
11 Station from the Company’s seacoast area facilities where it receives coal deliveries by ship or
12 barge. The trucks, once cleaned, would then be loaded with the “manufactured” gypsum which
13 is a by-product of the operation of the CAP without introducing contamination from residual
14 coal in the truck bed. That gypsum is trucked back to the seacoast area and delivered to a
15 manufacturing facility which uses this product to make drywall – a product used in residential
16 and commercial building construction. The Company has stated that absent the truck wash for
17 cleaning the truck bed after delivery of coal to Merrimack Station, coal dust contamination of the
18 gypsum would reduce its value or render it unfit for use in the manufacturing process.
19

20 **Q. What is the total amount spent on the truck wash?**

21 A. In the Staff Audit dated August 23, 2013, the total cost recorded on Work Order “C04MK229
22 Truck Wash” is \$2,409,873. See Audit included as Attachment SRE-2 at pages 1 and 14.
23

24 **Q. Is the truck wash necessary for the operation of the scrubber?**

25 A. No. The truck wash facility was intended to reduce trucking costs by facilitating use of trucks

1 bringing coal to Merrimack Station in the back-haul of the CAP by-products from the Merrimack
2 Station site and thus is not, strictly speaking, necessary for the operation of the scrubber. It is an
3 ancillary part of the Clean Air Project. The Company provided an explanation of the purpose of
4 the truck wash facility in response to OCA 2-15. See Attachment SRE-3.

5
6 **Q. Does the OCA believe that the investment in the truck wash facility was prudent?**

7 A. Based on information provided by the Company in response to discovery it appears the
8 Company's assumptions used at the time the investment decision was made were not
9 unreasonable. There is not sufficient evidence to conclude that the Company's decision was
10 imprudent. However, more recent information indicates that the truck wash is *not used and*
11 *useful* in providing service to customers.

12
13 **Q. You referred to a data response as the source of the original assumptions used by the**
14 **Company. Could you be specific about that response?**

15 A. The Company's response to TS-01, Q-TECH-011 dated 9/21/2012 which I include as
16 Attachment SRE-4 provides the Company's assumptions regarding the number of trucks
17 carrying coal from the seacoast to Merrimack Station and the estimated number returning to the
18 seacoast carrying gypsum. Based on trucking rates known at the time the decision was made,
19 the Company estimated there would be a net economic benefit to customers when the trucking
20 cost savings is compared to the incremental revenue requirement for the truck wash facility.

21
22 **Q. Have the Company's predictions regarding usefulness of the facility and net benefit to**
23 **customers turned out to be accurate?**

24 A. No. More recent information provided by the Company demonstrates that the truck wash
25 facility is not providing service as predicted. The Company's response to OCA 1-15 from DE

1 13-108, included as Attachment SRE-5 makes it clear that the last coal truck from Schiller to
2 Merrimack arrived April 13, 2012 and the first truck carrying gypsum did not leave until April
3 30, 2013. With no coal deliveries taking place the OCA concludes the truck wash facility is not
4 used and useful in providing service to customers.

5
6 **Q. What recent information was provided which leads you to this conclusion?**

7 A. In response to discovery, the Company stated that coal trucking between the seacoast and
8 Merrimack Station has not occurred since April 13, 2012 due to the unavailability of Venezuelan
9 coal.” See response to TS 2-36 included as Attachment SRE-6. This “Venezuelan coal” is a
10 type of coal which previously arrived by ship/barge at Schiller and was trucked to Merrimack
11 Station. See Attachment SRE-3. Further, the Company stated that “Gypsum trucking began
12 April 30, 2012.” Based on the information provided in this response, there has been absolutely
13 no use of the truck wash facility as it was originally intended to be used which was to clean the
14 beds of coal trucks so that the clean truck could then be loaded with gypsum, without
15 contamination, for the return trip to the seacoast.

16
17 **Q. Do you have a recommendation for the Commission regarding the truck wash expenses?**

18 A. Yes. The OCA recommends that the Commission not allow the \$2,409,873 related to the truck
19 wash to be included in rate base. This component of the Clean Air Project is not used and useful
20 in providing service to customers so it should not earn a return.

21
22 **Q. Are you recommending that the Commission disallow the recovery of costs associated with
23 expenses?**

24 A. No. As explained above, it is not the OCA’s position that the costs incurred for the truck wash
25 were imprudent. Rather, as information supplied by the Company demonstrates, the investment

1 is not now used and useful in the operation of the CAP. Therefore it is not reasonable for the
2 Company to include the costs related to this component of the CAP in rate base and earn a return
3 on them as they are not providing service to customers. The OCA recommends that the costs
4 related to the truck wash component of the CAP should be collected via an amortization over a
5 period of time which reflects the life of the associated Merrimack Station and the CAP assets.
6

7 **Q. Do you have a recommendation as to the appropriate period of time over which the
8 amortization should occur?**

9 A. The Company's 2011 technical update to depreciation determined the Average Year of Final
10 Retirement (AYFR) for Merrimack Station and all of its associated components as 2038. The
11 Commission is reviewing the depreciation component of the Company's expenses in docket DE
12 13-108. I recommend that the amortization period of these costs should be consistent with the
13 depreciation findings in Docket No. DE 13-108.
14

15 **Q. The next issue you identified was related to certain habitat conservation expenses referred
16 to as "permits and fees." Please discuss this issue.**

17 A. The final audit of CAP project costs performed by the Commission's Audit Division identified
18 payments made to New Hampshire Fish and Game. In discovery the OCA requested that the
19 Company "[p]lease specify what rule, regulation, or required permit this agreement [for payment
20 to Fish and Game] is pursuant to or intended to be in compliance with."
21

22 **Q. What response did the Company provide?**

23 A. I include a copy of the discovery question and the Company's response as Attachment SRE-7.
24 The Company explained that the Clean Air Project had an impact on potential habitat for the
25 New England cottontail rabbit and that NH-DES required the Company to reach an agreement

1 with NH Fish & Game. The Company did not provide a direct response to the OCA's question as
2 to what rule, regulation or required permit this payment was intended to comply with. I
3 conclude that the Company has not met its burden in explaining why this payment was necessary
4 for the completion of the CAP. I recommend, therefore, that the Commission not allow the
5 inclusion of the payment of \$50,000 to NH Fish and Game "to fund New England cottontail
6 habitat and species conservation efforts" as an expense of the CAP that ratepayers should bear.
7

8 **Q. Do you have any other support for your position?**

9 A. Yes. The New Hampshire Fish and Game Department maintains a "Roster of Donors" to its
10 Nongame and Endangered Wildlife Program¹ which it posts on its website. The website
11 provides a list of donors broken down into time periods. The list of donors for July 1 –
12 December 31, 2009 shows "Public Service of New Hampshire" listed in the "Champion" level
13 category which represents the highest level of donation². I include a copy of this list as
14 Attachment SRE-8.
15

16 Further, information provided on the Fish and Game website states that "[e]ach year the
17 Nongame Program must raise \$50,000 through private contributions to meet a matching grant
18 from the state."
19

20 Therefore, I conclude that the Company's payment to NH Fish & Game is more in the nature of
21 a donation than a required fee or permit.
22
23

¹ See http://www.wildnh.com/Wildlife/Nongame/Hall_of_Donors.htm.

² "Champion" level represents donations greater than \$1000 per email with NH F&G.

1 Q. **Is the Company allowed to make donations?**

2 A. Yes it is. However, in the course of filing a rate case, the Company is required to file a detailed
3 list of membership fees, dues, and donations in accordance with PUC 1604.01(a)(11) for
4 Commission review. The OCA understands this requirement to be present so that the
5 Commission can review the Company's expenses in these categories to determine if the costs are
6 required for the provision of service to customers and thus eligible for inclusion in rates.

7
8 Q. **Do you have a recommendation for the Commission regarding this expense?**

9 A. Yes. The OCA recommends that the Commission disallow this expense from inclusion in the
10 CAP costs as the Company has not met its burden in demonstrating that its donation to the
11 Nongame and Endangered Wildlife Program was a required fee or permit expense in the
12 development of the CAP.

13
14 Q. **The third issue you identified relates to the Commission's responsibility to address the used
15 and useful concept subsequent to any determination that is made regarding prudence, is
16 that correct?**

17 A. Yes. The testimony of OCA's witness Matthew Kahal addresses the issue of prudence in the
18 Company's decision making process leading up to and during the construction of the Clean Air
19 Project. To the extent that the Commission determines the Company's investments in the project
20 to be prudent, the Commission must then determine the extent to which the assets are used in
21 useful in the provision of service to customers. The used and useful issue is one which the OCA
22 addressed in recent testimony of Stephen Eckberg in docket DE 13-108 reviewing PSNH's 2012
23 Energy Service expenses. The OCA presented argument in that testimony that the Company's
24 fossil fuel generating assets are no longer being used in the manner in which they were designed
25 and intended to be used. As evidenced by significantly reduced capacity factors due to changes

1 in market conditions these generating assets are no longer providing sufficient benefit to
2 customers. The OCA recommended that the Commission reduce the net plant value on which
3 the Company would earn its shareholder return.
4

5 **Q. Would this same approach to reducing the net plant value be applicable here in**
6 **considering rates related to putting the Clean Air Project into rate base?**

7 A. Yes it would. Merrimack Station was one of the generating assets for which the OCA proposed
8 a reduction in net plant value based on the plant's capacity factor in recent years when compared
9 to the plant's historical levels of usage as measured by its capacity factor. The Company has
10 stated that the Clean Air Project which is integrated into both generating units at Merrimack
11 Station (MK1 and MK2) is now in service and has been so since September 27, 2011. The
12 arguments presented by the OCA in testimony in DE 13-108 apply to the CAP as well as the
13 generating units as they are intertwined in their operation. That is, the CAP is intended to reduce
14 emissions when either (or both) MK1 or MK2 are operating. It does not provide any direct
15 benefit when the plants are not operating. Thus, the reduction in the usefulness of the generating
16 units should likewise be reflected in a reduction in the usefulness of the CAP.
17

18 **Q. What are you recommending that the Commission consider regarding the CAP?**

19 A. I recommend that to the extent the Commission finds that the Company's investments in the
20 CAP are determined to be prudent, that the Commission apply the OCA's used and useful
21 analysis as described in the testimony of Stephen Eckberg in DE 13-108. That docket
22 considered PSNH's 2012 Energy Service costs including the Company's return on owned
23 generating assets including Merrimack Station. Similarly, the Commission is now considering
24 2012 costs relating to the Company's Clean Air Project which include calculation of return on
25 the investments. Thus, the OCA's proposal in testimony of Eckberg in DE 13-108 is equally

1 applicable in the instant docket.

2
3 **Q. Have you calculated the estimated impact of your recommendation?**

4 A. Yes I have calculated the reduction in equity return based on adjustments to one of the
5 Company's own schedules. On February 20, 2013, PSNH filed a "Request for Accounting
6 Statement Clarification" accompanied by a Supplemental Technical Statement of Stephen Hall
7 and Michael Shelnitz in this docket. That Technical Statement included a two page attachment
8 which provided the Company's calculation of return (total return, debt return and equity return)
9 on the CAP investments in 2012. See Attachment SRE-9. I adjusted the information in that
10 schedule using the OCA's recommended 2012 used and useful adjustment for Merrimack Station
11 found in Table 2 on page 13 in testimony of Eckberg in DE 13-108. I include the text of that
12 testimony (absent attachments which are available in the online docket) as Attachment SRE-10.

13
14 **Q. What are the results of your adjustment to the Company's calculations?**

15 A. The result is a reduction in Equity Return of \$9,208,617 for 2012 from \$32,675,000 shown on
16 SRE-9 page 2 to an Equity Return of \$23,466,000 reflecting the reduced Net Plant value of the
17 CAP. It is important to note that my calculation is based on adjustments to the Company's full
18 requested "Net Plant amount included in rate base" values shown on line 7 of SRE-9 (the
19 Company's Schedule). I have taken this approach for the purposes of providing an estimated
20 impact of the OCA's proposal. Any other adjustments to net plant which the Commission may
21 order in this proceeding such as accepting the OCA's recommendation regarding costs related to
22 the truck wash, or other adjustments would result in adjustments to my calculation presented
23 above. The results of my calculation are presented in Attachment SRE-11. Finally, the
24 calculation I present relates to 2012 return on net plant. Similar adjustments should be made for
25 the period in 2011 subsequent to the Company declaring the CAP to be in service and for time

1 periods since the end of 2012.

2

3 **Q. Does that conclude your testimony?**

4 **A. Yes it does.**