

BEFORE THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

ORIGINAL	
N.H.P.U.C. Case No.	DE 12-292
Exhibit No.	#4
Witness	Stephen R. Eckberg
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In the matter of:

Public Service Company of New Hampshire

Proposed Default Energy Service Rate for 2013

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DE 12-292

Direct Prefiled Testimony

Of

Stephen R. Eckberg

Utility Analyst

on behalf of

the Office of Consumer Advocate

Dated: November 21, 2012

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
4 Advocate (OCA) as a Utility Analyst. I include as Attachment SRE-1 to my
5 testimony a statement of my education and experience.

6
7 **Q. Have you previously testified before the Commission?**

8 A. Yes, I have testified on behalf of the OCA in a number of dockets, including the
9 Request for Alternative Regulation by the TDS Companies, numerous water
10 utility rate cases, and electric and natural gas utility energy efficiency dockets.

11

12 **II. Purpose of Testimony.**

13 **Q. What is the purpose of your testimony in this Docket?**

14 A. The purpose of my testimony is to identify several issues which the OCA
15 considers important in this review of PSNH's Proposed Default Energy Service
16 Rate for 2013. There are outstanding responses to several Technical Session data
17 requests in addition to the Company's scheduled update to its proposed rate filing
18 which will occur in December. The OCA wants to ensure these issues will receive
19 attention by identifying them in testimony. These issues are:

20 1. The "systematic review of operation, materials, and capital costs,
21 including personnel costs, associated with the operation of its
22 fossil fuel plants..." that the Commission directed the Company
23 to undertake in Order 25,380, June 27, 2012. See Order page 7.

24 2. Projected changes in Property Taxes for several of the
25 Fossil/Hydro generating units.

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- 3. Projected increases in Payroll Taxes for the Fossil/Hydro generating units.
- 4. A projected increase in depreciation for Schiller Station.
- 5. Northern Wood Power Project (NWPP, or Schiller 5) annual revenue targets and Renewable Portfolio Standard (RPS) rule changes which may impact market prices for Renewable Energy Credits (RECs).

I will provide additional discussion about the OCA’s concerns relating to each of these items in my testimony below.

III. Discussion of Issues.

Q. Please discuss the first issue you identified above regarding a “review” or study ordered by the Commission.

A. In the 2012 mid-year review and adjustment of the Company’s Energy Service rate, there was discussion at hearing about certain operating costs related to the Company’s owned generation facilities. In its Order 25,380 the Commission directed the Company to “undertake a systematic review of operation, materials, and capital costs, including personnel costs, associated with the operation of its fossil fuel plants given the low capacity factors of these units in recent years and the current expectation of them remaining low over the next few years. The review should also include any costs that are billed to the fossil plants such as engineering and regulatory support. PSNH shall provide details regarding its review and analysis at the time it makes its next energy service filing.”

1 **Q. Has the Company provided such a review with its 2013 Energy Service filing?**

2 A. No it has not yet provided the results of that review. In response to a data request
3 from the OCA, the Company indicated that it intends to submit this review when it
4 updates its Energy Service filing which, according to the Commission approved
5 procedural schedule, will occur on December 12. See response to OCA 1-5
6 included as Attachment SRE-2.

7

8 **Q. Does the OCA have any concern about the timing of this submission?**

9 A. Yes. While we have every confidence that the Company will comply with the
10 Commission's Order, the OCA is concerned there will not be adequate time for a
11 meaningful review of such a significant submission at this point in the current
12 proceeding.

13

14 **Q. What are the remaining items on the procedural schedule?**

15 A. The approved procedural schedule includes the Company's planned update filing
16 on December 12 which will be followed by a Technical Session to be conducted
17 by Conference Call on December 14 to review details of that Energy Service
18 update, then a Hearing before the Commission on December 18.

19

20 **Q. Does the OCA have any specific suggestions to make regarding the review of
21 this "study"?**

22 A. It is premature to propose any specifics as we have not seen the study. I raise this
23 issue to identify its potential significance, and to indicate our position that there
24 must be an appropriate opportunity and method for review. We anticipate that we
25 will work with the Company and Staff to address this as we proceed with this

1 Docket.

2

3 **Q. Please discuss your second item above regarding Property Taxes.**

4 A. In response to Discovery, the Company provided a detailed estimate of Property
5 Tax expenses for its Fossil and Hydro generation units. See response to Staff 1-4
6 page 4 of 6 included as Attachment SRE-3. This response, when compared with
7 the corresponding response from last year's Energy Service docket DE 11-215,
8 shows that the Property Tax for Merrimack Station is estimated to increase by
9 \$436,000 and for Newington Station by \$127,000. See, for comparison, response
10 to Staff 1-2 from DE 11-215, page 5 of 6 included as Attachment SRE-4.

11

12 **Q. Has the Company provided a supporting explanation for these estimated**
13 **property tax increases?**

14 A. At the Technical Session held on November 12, the OCA asked for additional
15 information regarding the property tax estimates. Our main concern is that
16 increases in property taxes for the Merrimack station may be related to
17 investments made in conjunction with the Clean Air Project (CAP) which are
18 currently under review in DE 11-250 and that any property tax increases related to
19 the CAP should be resolved in the context of that Docket.

20

21 **Q. Please discuss the third issue you identified above concerning payroll tax.**

22 A. In response to discovery the Company provided an estimate of payroll taxes
23 related to its generation facilities. See Attachment SRE-3 page 5 of 6. The
24 estimates included show an increase of approximately 12% over similar estimates
25 provided in last year's energy service docket. See Attachment SRE-4 page 6 of 6

1 for comparison.

2

3 **Q. Did the Company provide an explanation of these increased cost estimates?**

4 A. The OCA requested additional supporting information at the Technical Session
5 held on November 12. Therefore, additional information is forthcoming. Our
6 main concern is that while we are aware of much discussion in the general press
7 about possible payroll tax increases in 2013 we are not sure whether the
8 Company's proposed increases relate to changes in payroll tax rates or to increases
9 in staff or wage levels or if there is some other explanation. We look forward to
10 receiving the Company's explanation and discussing the issue at the next
11 scheduled Technical Session conference call.

12

13 **Q. Please discuss the fourth item from your list regarding an increase in the**
14 **depreciation amount related to Schiller Station.**

15 A. In Docket DE 11-215 which was the Company's 2012 Energy Service Rate
16 docket, the Company updated the Average Year of Final Retirement (AYFR) for
17 many of its generation facilities. See Response to TS 2-3 from DE 11-215
18 included as Attachment SRE-5. The OCA is aware that in Order 25,380 the
19 Commission directed its Staff to review the Company's depreciation rates during
20 the reconciliation docket relating to 2012 Energy Service costs. While
21 understanding that this future review of depreciation costs will occur and that only
22 prudently incurred costs of supplying Energy Service will be included in rates, the
23 OCA is also concerned that only appropriate costs be included in developing the
24 forward looking Energy Service costs estimates.

25

1 **Q. What are the depreciation amounts included for Schiller Station that are of**
2 **concern to the OCA?**

3 A. The Company made certain changes to depreciation rates by adjusting the AYFR
4 for a number of its generation units. The overall impact of these changes was to
5 reduce depreciation expenses by \$4.8 million from \$22.6 million to \$17.8 million.
6 The Company did not change the AYFR for Schiller Station yet the annual
7 depreciation amount included in energy service costs has increased by roughly \$4
8 million from an initial estimate of \$7,173,000 in its 2012 ES filing to the current
9 initial estimate of \$11,149,000 in the instant docket. See Attachment SRE-4 page
10 3 of 6 for 2012 estimate and SRE-3 page 3 of 6 for 2013 estimate. This is a
11 significant increase for which the Company has not provided an adequate
12 explanation.

13

14 **Q. Is the OCA proposing an adjustment to the Company's depreciation amounts**
15 **included in its estimate of energy service costs?**

16 A. Not at this time. We await additional information from the Company in response
17 to Technical Session data requests.

18

19 **Q. Please address the fifth and final issue from your list regarding NWPP**
20 **revenue targets and recent changes in REC markets.**

21 A. In response to discovery, the Company stated that "NWPP revenue targets have
22 been satisfied in the past by using a sum of REC revenues, the production tax
23 credits and avoided costs associated with RGGI compliance." See response to
24 Staff 1-3 included as Attachment SRE-6. The Company's forecasted estimate of
25 energy output from the NWPP in 2013 of 309,000MWH would result in 309,000

1 Class I RECs would, at a forecasted price of \$57/REC result in revenue sufficient
2 in and of itself to meet the NWPP 2013 revenue target of roughly \$6.5 million.

3

4 **Q. Is the OCA comfortable with the Company's forecast in this regard?**

5 A. I question the completeness of the estimate. If the 309,000 RECs produced could
6 all be sold at \$57 each then clearly this would result in just over \$17.6 million of
7 revenue and would be sufficient to meet the NWPP revenue target. The OCA
8 understands that the Company has, in recent years, sold the NWPP RECs into the
9 MA market as this has provided the greatest benefit to NH ratepayers. However,
10 recent changes in the Massachusetts Renewable Portfolio Standards (RPS) rules¹
11 will impact the eligibility of many Class I RECs currently being sold in the MA
12 market beginning January 1, 2013, including those produced by the NWPP. In the
13 Technical Session on November 12, the Company indicated it believed that, as a
14 result of the changes to the MA RPS rules effective January 1, 2013, *at best* 50%
15 of NWPP's Class I RECs would qualify to be sold in the MA market in 2013.
16 Therefore, if fewer of NWPP's Class I RECs can be sold in the MA market, a
17 correspondingly lower value would be realized.

18

19 **Q. Are there other elements of the estimated value of the NWPP RECs that
20 concern the OCA?**

21 A. Yes. The OCA understands that REC market prices are difficult to forecast. REC
22 producers and REC buyers may conduct private transactions so that not all RECs

¹ <http://www.mass.gov/eea/energy-utilities-clean-tech/renewable-energy/biomass/renewable-portfolio-standard-biomass-policy.html>

1 are sold through an open auction with resulting sales information available to
2 other buyers and sellers. Thus, it may be that the Company's estimated value of
3 \$57/REC contains significant price uncertainty as well. Overall then, it may be
4 the case that if, for example, only 25% of REC's qualify for sale in the MA Class I
5 market at the Company's estimated price of \$57/REC, or a lower value, that the
6 yield from REC sales in the MA market could be significantly less.

7

8 **Q. Is the OCA concerned that the NWPP will not meet its 2013 revenue target?**

9 A. No. Not at this time. As the Company stated in its data response as quoted above,
10 there are other components to the revenue target such as the Renewable Energy
11 Production Tax Credit (REPTC) which contribute to the calculation of NWPP's
12 revenue target also. The OCA understands that the value of the REPTC for the
13 NWPP is 1.1 cents/kWh or \$11/MWh. Thus, if the plant produces its estimated
14 309,000 MWh in 2013, this would result in a value of \$3,399,000 as well. Our
15 concern is not that the 2013 revenue target will be missed, but rather that the
16 Company must be conscientious in monitoring a number of contributing factors
17 which play a part in evaluating the value of the NWPP to ratepayers. We are
18 confident that the Company is well aware of the complexities of the REC markets
19 and pays close attention to changes here and in other areas such as tax policy
20 which may impact the value of the NWPP to ratepayers.

21

22 **Q. Do you have any additional comments to make?**

23 A. The OCA looks forward to reviewing the additional information that the Company
24 will provide in its Technical Session data responses and in its Update Filing
25 currently scheduled for December 12.

1

2 **Q: Does this conclude your testimony?**

3 **A: Yes.**