Docket DE 15-xxx
Exhibit No. 1

**STATE OF NEW HAMPSHIRE**
**BEFORE THE PUBLIC UTILITIES COMMISSION**

**Public Service Company of New Hampshire**
**d/b/a Eversource Energy**
**Reconciliation of Energy Service and Stranded Costs for**
**Calendar Year 2014**

# DIRECT TESTIMONY OF MICHAEL L. SHELNITZ

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

A. My name is Michael L. Shelnitz. My business address is 107 Selden Street, Berlin, Connecticut. I am employed by Eversource Energy as the Team Lead of New Hampshire Revenue Requirements and in that position I provide service to Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource").

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

A. Yes. I have previously sponsored testimony before the Commission in ES and SCRC mid-year rate adjustment and annual reconciliation dockets.

**Q. What are your current responsibilities?**

A. I am currently responsible for the calculation of New Hampshire revenue requirements for Eversource, as well as the filings associated with Eversource's Energy Service charge, Stranded Cost Recovery Charge and Transmission Cost Adjustment Mechanism.

**Q. What is the purpose of your testimony?**

A. The primary purpose of my testimony is to provide an overview of this filing and to seek approval of the reconciliation between the revenues and expenses contained within Eversource's Energy Service ("ES") and Stranded Cost Recovery Charge ("SCRC") rate filings for the twelve-month reporting period January 1, 2014 through December 31, 2014 ("reporting period").

**Q. Will anyone else be providing testimony in support of this filing?**

A. Yes. Elizabeth H. Tillotson, Manager of Regulatory and Environmental for Eversource will review the performance of Eversource's fossil-hydro generation units and Frederick B. White, Supervisor -

Power Supply Analysis and Policy, Eversource will review how Eversource met its energy and capacity requirements during this reporting period.

**Q. Have you calculated replacement power costs as a result of outages incurred during the period as discussed in Mr. Smagula's testimony?**

A. Yes. Attachment MLS-2 summarizes the replacement power costs incurred as a result of forced outages during the period.

**Q. Please describe the ratemaking framework that began on May 1, 2001.**

A. On May 1, 2001 (Competition Day), Eversource began to recover costs under the Restructuring Settlement. Under the terms of the Restructuring Settlement, Eversource continues to recover costs related to the generation and delivery of electricity, but the specific rate structure now in place segments recovery into various components. The four major components of that segmentation are the Delivery Charge, the Transmission Cost Adjustment Mechanism (TCAM), the SCRC, and the ES rate. Two of the major interrelated rate components, the SCRC and the ES rate are the subject of this proceeding.

## Energy Service Charge

**Q. Please describe the ES recovery mechanism.**

A. Under restructuring, customers have a choice regarding their energy supplier. Customers may contract for and obtain energy on their own, or they may choose to continue to receive their energy from Eversource.

Under the terms of the Restructuring Settlement and subsequent legislation, Eversource is required to provide ES to those customers who request it. Initially, ES rates were set by statute. Beginning in February 2003, the ES rate for large commercial and industrial customers was based on Eversource's forecast of "actual, prudent and reasonable costs." Beginning in February 2004, the ES rate for all retail customers was based on a forecast of "Eversource's actual, prudent, and reasonable cost of service." The chart below shows the ES rates per kWh which have been in effect since Competition Day.

| Rate in Effect: | Rate Set By: Statute or Docket No. | Residential, Small Commercial/Industrial Customers (RSCI) | Large Commercial/ Industrial Customers (LCI) |
|---|---|---|---|
| May 1, 2001 – January 31, 2003 | Statute | 4.40 cents | 4.40 cents |
| February 1, 2003 - January 31, 2004 | RSCI – Statute<br>LCI-DE 02-166 | 4.60 cents | 4.67 cents |
| February 1, 2004 - July 31, 2004 | DE 03-175 | 5.36 cents | 5.36 cents |
| August 1, 2004 - January 31, 2005 | DE 03-175 | 5.79 cents | 5.79 cents |
| February 1, 2005 - July 31, 2005 | DE 04-177 | 6.49 cents | 6.49 cents |
| August 1, 2005 - January 31, 2006 | DE 04-177 | 7.24 cents | 7.24 cents |
| February 1, 2006 - June 30, 2006 | DE 05-164 | 9.13 cents | 9.13 cents |
| July 1, 2006 - December 31, 2006 | DE 05-164 | 8.18 cents | 8.18 cents |
| January 1, 2007 - June 30, 2007 | DE 06-125 | 8.59 cents | 8.59 cents |
| July 1, 2007 – December 31, 2007 | DE 06-125 | 7.83 cents | 7.83 cents |
| January 1, 2008 - June 30, 2008 | DE 07-096 | 8.82 cents | 8.82 cents |
| July 1, 2008 - December 31, 2008 | DE 07-096 | 9.57 cents | 9.57 cents |
| January 1, 2009 - July 31, 2009 | DE 08-113 | 9.92 cents | 9.92 cents |
| August 1, 2009 - December 31, 2009 | DE 08-113 | 9.03 cents | 9.03 cents |
| January 1, 2010 - June 30, 2010 | DE 09-180 | 8.96 cents | 8.96 cents |
| July 1, 2010 - December 31, 2010 | DE 09-180 | 8.78 cents | 8.78 cents |
| January 1, 2011 - June 30, 2011 | DE 10-257 | 8.67 cents | 8.67 cents |
| July 1, 2011 - December 31, 2011 | DE 10-257 | 8.89 cents | 8.89 cents |
| January 1, 2012 – April 15, 2012 | DE 11-215 | 8.31 cents | 8.31 cents |
| April 16, 2012 – June 30, 2012 | DE 11-250 | 8.75 cents | 8.75 cents |
| July 1, 2012 - December 31, 2012 | DE 11-215 | 7.11 cents | 7.11 cents |
| January 1, 2013 – June 30, 2013 | DE 12-292 | 9.54 cents | 9.54 cents |
| July 1, 2013 - December 31, 2013 | DE 12-292 | 8.62 cents | 8.62 cents |

| Rate in Effect: | Rate Set By: Statute or Docket No. | Residential, Small Commercial/Industrial Customers (RSCI) | Large Commercial/ Industrial Customers (LCI) |
|---|---|---|---|
| January 1, 2014 – June 30, 2014 | DE 13-275 | 9.23 cents | 9.23 cents |
| July 1, 2014 – December 31, 2014 | DE 13-275 | 9.87 cents | 9.87 cents |
| January 1, 2015 – June 30, 2015 | DE 14-235 | 10.56 cents | 10.56 cents |

**Q. Please describe the costs incurred in providing ES to customers during the twelve-month reporting period.**

A. ES costs include the fuel costs associated with Eversource's generation as well as costs and revenues from energy and capacity purchases and sales. Also included are costs related to the New Hampshire Renewable Portfolio Standard ("RPS") and the Regional Greenhouse Gas Initiative ("RGGI"). Finally, additional costs include those associated with IPP power valued at market prices, revenue requirements of generation such as: non-fuel O&M, depreciation, property taxes and payroll taxes, and a return on the net generation investment. Detailed information on the cost of generation is included in Attachment MLS-3 and Attachment MLS-4, page 7.

**Q. Are Scrubber costs included in the final results of the reporting period for Energy Service?**

A. Yes. The Scrubber was operational and used and useful on September 28, 2011. The Scrubber costs relate to the return on the Scrubber rate base, depreciation, property tax and Scrubber-related O&M, fuel and avoided SO2 costs.

**Q. Has there been any recovery of Scrubber costs through ES rates for the period January 1, 2014 through December 31, 2014?**

A. Yes, the costs of the Scrubber were partially recovered in rates for 2014. In 2011, the Commission opened Docket No. DE 11-250 - Investigation of Merrimack Station Scrubber Project and Cost Recovery to address the issue of Scrubber cost recovery. In that docket, the Commission approved a temporary rate of 0.98 cents per kWh to partially recover Scrubber costs effective April 16, 2012.

**Q. What are the final results for ES in the 2014 reporting period?**

A. As shown on Attachment MLS-4, page 6, line 9, last column, the ES had a net adjusted under-recovery balance of $122.3 million at December 31, 2014. This net adjusted under-recovery was due primarily to deferred Scrubber costs of $105.0 million (i.e., scrubber costs incurred in excess of the temporary rate recovery). Additionally, the net adjusted under-recovery was also due to $18.5 million revenues lower than forecasted primarily driven by migration, offset by approximately ($1.2) million of combined O&M, Return on Rate Base, Energy Expenses and other miscellaneous expenses lower than forecast. With respect to the deferred Scrubber costs, the Commission will complete its review of Scrubber costs in the aforementioned Docket No. DE 11-250 - Investigation of Merrimack Station Scrubber Project and Cost Recovery, after which it is expected that a full reconciliation of deferred Scrubber costs will take place. As such, the costs associated with the Scrubber are not addressed in this filing.

**Stranded Cost Recovery Charge**

**Q. Please describe the SCRC and its components in more detail.**

A. The SCRC recovers costs categorized as "stranded" by New Hampshire law in RSA Chapters 374-F and 369-B. The initial SCRC average rate of 3.4 cents per kWh was agreed to in the Restructuring Settlement which further defined what Eversource's stranded costs were and categorized them into three different parts (i.e. Parts 1, 2, and 3) based on their priority of recovery. Effective June 30, 2006, Part 3 costs were fully recovered.

**Q. Please describe the costs that are recovered through the SCRC.**

A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs have been securitized through the issuance of rate reduction bonds ("RRBs"). Part 1 costs consist of the over-market portion of Seabrook regulatory assets, a portion of Eversource's share of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees, legal fees, etc.) while obtaining the RRB financing. RRB interest and RRB fees are also recovered as Part 1 costs. Page 4 of Attachment MLS-4 shows the recovery of Part 1 costs by month.

The second tier, Part 2 stranded costs, includes "ongoing" costs consisting of the over-market value of energy purchased from IPPs and the up-front payments made for IPP buy-downs and buyouts previously approved by the Commission, and Eversource's share of the present value of the savings associated with these buy-down and buy-out transactions. Eversource is amortizing these up-front payments over the respective terms of the original IPP rate orders, including a return on the unrecovered costs.

In addition, Part 2 costs include a negative return on the credit for deferred taxes related to the Part 1 securitized stranded costs and a return on the unpaid contract obligations to Connecticut Yankee

Atomic Power Co., Maine Yankee Atomic Power Co., and Yankee Atomic Energy Corp., net of related deferred taxes. Page 5 of Attachment MLS-4 shows the detailed Part 2 costs by month.

**Q. What is your estimate of how long Eversource will continue to bill the SCRC?**

A. That depends on the type of cost. Part 1 costs are recovered through the SCRC over the life of the corresponding terms of the rate reduction bonds. Part 1 recovery ended in May 2013 since the RRBs were fully amortized as of the end of April 2013.

The timing of Part 2 cost recovery through the SCRC is dependent on the type of cost. There are several types of Part 2 costs: ongoing purchases from the IPPs; the amortization of up-front payments associated with buyouts or buydowns of IPP rate orders or contracts; and various returns, including (1) the return on the credit for Part 1 related deferred taxes, (2) returns on Part 2 stranded costs and the outstanding Yankee contract obligations, (3) the return on SCRC deferred balance.

Ongoing IPP purchases are obligations that will end when the various rate orders or contracts expire. The up-front payments associated with buyouts or buydowns of IPP rate orders or contracts are also being amortized over the remaining lives of the respective rate orders or contracts. The last such rate order or contract expires in the early 2020s. However, most wood-burning IPP rate orders expired in late 2006 with the last rate order for a wood-fired IPP expiring in 2008. Therefore, Part 2 costs have decreased and will continue to decrease as additional rate orders expire. In addition, the credit for Part 1 related deferred taxes pertaining to RRBs ended in May 2013 with the full amortization of Part 1 costs.

**Q. Please provide an overview of stranded cost recovery during the 2014 reporting period.**

A. During the reporting period, the total accumulated balance of Part 2 costs increased by $1.0 million from $12.8 million at the end of 2013 to $13.8 million at the end of 2014. See Attachment MLS-4, page 1.

**Q. What are the final results for the SCRC in the 2014 reporting period?**

A. For the SCRC, the net balance as of December 31, 2014 is an under-recovery of $9.6 million as shown on Attachment MLS-4, page 1, line 5, 3rd column. This under-recovery primarily relates to Above Market IPP Costs higher than forecast in addition to PSNH crediting to customers $5.7M of cash held in the RRB trust accounts at the time of maturity of Eversource's RRBs. As part of the SCRC mid-year rate adjustment portion of Docket DE No. 12-291, Eversource agreed to credit this cash to customers and subsequently seek its recovery in the 2013 annual reconciliation docket in order to allow for a full discovery process to take place as part of the reconciliation docket.

**Q. Was there activity through the Seabrook Power Contracts in 2014 that affected the Seabrook net proceeds figure?**

A. Yes. There were credits to NAEC of $0.1M in 2014 reported on Attachment MLS-4, page 7. While there may be additional charges and credits in 2015 that will further impact the net proceeds figure, we do not expect these amounts to be significant. However, we are unable to quantify these charges and credits at this time.

**Q. Will these Seabrook-related subsequent charges and credits be passed on to Eversource?**

A. Yes, the Seabrook Power Contracts between Eversource and NAEC are still in place for Seabrook sale reconciliation purposes.

**Q. Did Eversource file a summary of 2014 benefits for the Northern Wood Power project (NWPP)?**

A. Yes. Attachment MLS-4, page 11 provides the NWPP revenue target as well as the projected incremental revenues based on Schiller Unit 5 generation, consisting of Renewable Energy Certificates (RECs), Production Tax Credit ("PTCs") and RGGI avoided costs. These 2014 credits will be trued up to actual in the 2015 ES/SCRC filing.

**Q. Please summarize your request to the Commission**.

A. Eversource is requesting that the Commission approve the 2014 ES and SCRC reconciliations and find that Eversource's generation and purchased power costs were prudently incurred.

**Q. Does this conclude your testimony?**

A. Yes, it does.