Witness: Robert A. Baumann
Request from: New Hampshire Public Utilities Commission Staff

Question:
Please explain the differences between the currently allowed ES ROE of 9.81% and what was reported by PSNH as the COC Generation ROE on the NHPUC Form-1 for the first quarter of 2009, 12.80%.

Response:
The ROE differences arise because of differences between the accounting data in the NHPUC Form F-1 (F-1) and the rate making values in the Energy Service (ES) calculation. While the F-1 contains data similar to that in the ES calculation, it may also contain out-of-period data, and other accounting data that differs from the ES calculation which would impact earnings, and returns. As a result, there are differences between the allowed return on rate base in ES and actual ROE of the total generation business segment.

The primary reasons why the March 2009 F-1 generation business segment ROE of 12.80 is 299 basis point (BP) higher then the 9.81% ROE allowed for generation rate base are as follows:

Unitil revenues--In the spring of 2008, PSNH discovered that approximately $2M of Unitil wholesale distribution revenues had been incorrectly credited against ES costs. PSNH subsequently corrected its 2007 ES/SCRC annual reconciliation filing (DE 08-066) to remove the impact of the revenues. A corresponding, one time out of period, accounting entry to record additional wholesale revenues was made in the June 2008 closing. The F-1 generation ROE is higher by 72 BP as a result of this out of period adjustment.

Income taxes-- The taxes on PSNH's books include accrued estimates for the current tax year, prior year tax return to book accrual adjustments, and other tax accruals related to possible future tax events. Generally accepted accounting principles, or GAAP, also requires PSNH to meet the requirements of APB Opinion #28, "Interim Financial Reporting' (APB 28). APB 28 requires companies to adjust their interim tax accruals (i.e. March, June, and September) to reflect certain anticipated economic events including anticipated tax legislation, tax strategies, and seasonal patterns of gains and losses in order to estimate the effective tax rate that would be effective for the calendar year. As these quarterly APB 28 adjustments are short-term timing differences, PSNH has not segmented these adjustments and they are recorded to below-the-line (non-operating) tax accounts and not included in the tax expense shown on the F-1. The ES calculation uses a known and measurable combined federal/state statutory tax rate.

The F-1 generation ROE is higher by 150 BP as a result of the differences in taxes.

Renewable Greenhouse Gas Initiative (RGGI) avoided costs shared savings--- Beginning in 2009, PSNH began using both purchased and "earned" allowances to meet its RGGI targets. The "earned" allowances were allocated to PSNH at a cost of $0 as a result of PSNH's construction and operation of the NWPP. The Joint Motion for Reconsideration accepted in Docket No. DE 03-166 allows PSNH to retain a portion of these savings. Accordingly, PSNH imputes a cost for the "earned" allowances that is recovered through the ES rate resulting in a positive earnings impact on the F-1 financial data. The F-1 generation ROE is higher by 41 BP due to the related difference.

The remaining 36 BP difference is a combination of minor differences between accounting and ratemaking, similar to the RGGI example above, and other differences between the F-1 calculation and the ES calculation. For example, in computing the segmented ROE, the F-1 requires the use of a 5 quarter rate base and capital structure while the ES calculation uses a monthly average rate base and updates its weighted average cost of capital each quarter based upon the actual capital structure as of the end of the previous quarter.