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PSNH disputes BIA findings

But survey consultant says utility's logic is flawed

By Lisa Prevost

Despite a much-publicized survey showing otherwise, Public Service Co. of N.H. insists that a potential 30 percent electric rate hike over three years will not have a dire effect on New Hampshire's economy.

But the survey consultant who conducted the energy survey for the Business & Industry Association of N.H., says PSNH intentionally used flawed logic in interpreting it to avoid acknowledging the economic risk associated with large electric rate increases.

"PSNH can ignore this, but they ignore it at their own peril," said John Reed, president of Reed Consulting Group Inc., which conducted the survey of more than 280 companies for the BIA.

In a preliminary analysis of the BIA survey prepared by PSNH and Bower Rohr & Associates, the utility concludes that the results actually support its proposal for annual rate increases of 10 percent for three years. Contrary to the survey's findings, PSNH maintains that substantial job loss under that scenario is unlikely.

The utility acknowledges that a 30 percent increase over three years, regardless of inflationary levels, would result in some lost sales, but the reduced costs associated with fewer customers will compensate for the loss of income, said senior economic analyst Dennis Delay.

At the heart of the different interpretations are opposing views on what constitutes acceptable rates. To PSNH, affordable rates do not mean comfortable, according to rate research and regulation services manager James Rodier. The 30 percent scenario might result in some load and job loss, but the utility's studies confirm it is in the interests of the company's investors and creditors, he said.

"It is tolerable. There's no undue hardship," Rodier said.

To the BIA, affordable rates mean the consumer is not sacrificed. There is no job loss, and people are not forced to leave the rate base, Reed said.

"These customers can contribute to reorganization costs in the PSNH system. PSNH should try and retain them as customers and not drive customers to cogeneration," he said.

PSNH filed for Chapter 11 bankruptcy protection 15 months ago because it was unable to keep up with payments on a $2.1 billion debt for its share of the Seabrook nuclear power plant. With negotiations stalled over a plan of reorganization, Bankruptcy Judge James Yacos ordered on March 16 that other parties holding reorganization plans for the utility may now file them for consideration. He also appointed a neutral rate examiner to help move negotiations along toward a consensual plan within 60 days.

A 30 percent rate hike is 'tolerable' says PSNH rate expert James Rodier.

Although the state has historically supported PSNH in its nuclear power endeavor, Gov. Judd Gregg has lately threatened to withdraw that support unless PSNH lowers its rate demands. Initially, PSNH put forward a 31 percent one-time increase, to be followed by inflationary increases. The state did not go along with that proposal. PSNH is now offering to phase in the increase over three years, regardless of inflation, Delay said.

The state has proposed a 20 percent hike, broken down into 4 percent a year for five years.

The BIA's survey concluded that the state's offer was more acceptable to major users of electricity. The survey attempted to measure industrial and commercial ratepayer response to seven different rate scenarios. Respondents showed the most severe reactions to large one-time increases of 10 to 30 percent, and to increases of 4 to 6 percent above inflation over five years. Two-thirds of the 38 major manufacturing customers who responded indicated they would develop cogeneration, shift production out-of-state, or close their facilities if electric rates rise over the next five years at the six percent level.

Although the survey did not specifically address the three-year, 30 percent phase-in PSNH supports, the utility's analysis maintains that, at worst, responses to its rate hike would resemble those under the 4 percent scenario, assuming 5 percent inflation. BIA respondents indicated a potential loss of 4,000 jobs, with the majority of companies opting for increased conservation and cogeneration development under that rate plan.

PSNH also disputes those economic effects, saying in its analysis that the survey did not take into consideration expansion within existing firms and the influx of new firms, according to the analysis. In addition, the utility does not fear conservation and cogeneration; rather, it welcomes it, according to Delay, who noted that neither is harmful to the state's economy.

In a March 23 letter to BIA President John Crosier, PSNH chief executive officer John Duffett declared there is "no rational basis for concluding that the state's economy will be harmed" by the utility's proposed increase.

"We are reassured about the realism of the rate levels we've proposed, because the more knowledgeable of these customers have flatly stated to us that the rates are affordable," Duffett said in the letter.

The purposeful flaw in the utility's conclusions is the decision not to consider the impact of how rate increases are distributed, said Reed in response.

"This conclusion that they've drawn is just dead wrong," he said.

In comparing its rate proposal to the BIA scenario calling for increases of 4 percent above inflation, PSNH looked at the total rate impact, but ignored the distribution of the rates, Reed explained.

"It's not so much what the total value is at the end of five years, it's how you get there. The message from our survey is very clear: If you try to collect more in the early years, you have a more severe response," Reed said.

The utility says a 30 percent rate hike would not result in substantial job loss

Judging from the survey results, Reed estimates that a guaranteed 10 percent increase, regardless of inflation, for three years would cause a much more drastic reaction by business then the 4 percent scenario.

The PSNH analysis also concludes that basic deficiencies in the survey method overstate the commercial and industrial response to rate increases. For example, the utility said:

- The respondents are not representative of the entire business community because they are the ones most sensitive to changes in electric rates and most able to take action.
- The respondents undoubtedly included what Rodier called a "strategic bias" in their responses.
- The survey did not account for the effect of expansion or new business in the state.

To the contrary, argues Reed, the respondents were asked to indicate expansion plans, and many did under the scenario that matched rate increases to inflation. But nobody mentioned expansion under the scenarios which projected higher rate increases, he said.

The survey consultants tried to eliminate exaggerated responses by verifying the answers in follow-up interviews with major users, he said. Fourteen manufacturers were contacted in face-to-face or phone interviews and they provided a "tremendous amount of corroboration," according to Reed.

"Our respondents represent 18 percent of all electricity PSNH sells. They may not be representative of the residential or small commercial users, but still, they're representative of themselves. And if that 18 percent goes away, we think that's a pretty serious outcome," Reed said.

PSNH has its own studies to back up the 30 percent increase it is seeking. The utility deliberately avoided a survey, according to Rodier, because they were advised that it would not produce an "objective response."

In "Affordability of Rates," another study put together by Bower Rohr, the utility concludes rates could rise as high as 41 percent before municipalization would kick in and load loss would damage the company. The studies used as evidence include:

- A 1985 finding by the N.H. Public Utilities Commission that a one-year increase of 18 to 40 percent is feasible.
- N.H. growth figures from 1973 to 1986 demonstrating that, despite energy increases greater than the rate of inflation and higher than the national average, employment grew steadily.
- Economic data from 58 major metropolitan counties from 1972 to 1985 showing no large differences in employment levels or business activity among counties with the largest or smallest electric rate increases.

Again, Reed disagrees with the utility's interpretation. The 41 percent rate threshhold is not measuring consumer demand elasticity, he said.

"That's the elasticity of government takeover. But I think if you asked Gov. Gregg if he would allow a 41 percent increase before he would step in, I think he would shed some light on it which would be different from PSNH's conclusions," Reed said. ■