

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

**Public Service Company of New Hampshire
Lempster Wind Project**

Docket No. DE 08-077

**PREFILED DIRECT TESTIMONY
OF
DANIEL W. ALLEGRETTI**

**on behalf of Constellation NewEnergy, Inc.
and Constellation Energy Commodities Group, Inc.**

October 1, 2008

1 **I. Background**

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

3 A. My name is Daniel W. Allegretti. My business address is Constellation Energy
4 Group, Inc., 111 Market Street, 5th Floor, Baltimore, Maryland.

5 **Q. What is your position?**

6 A. I am Vice President and Director of Wholesale Energy Policy for Constellation
7 Energy Resources, LLC.

8 **Q. Please describe your educational and professional background.**

9 A. I have a B.A. from Colby College and a J.D. from Georgetown University Law
10 Center. I have approximately 20 years experience in the electric industry with an
11 emphasis on competitive markets and regulatory reform. I served two terms as
12 the chairman of the NEPOOL Participants Committee and am currently a Director
13 on the Board of the Northeast Power Coordinating Council. I have also served on
14 the New York ISO Management Committee, the Market Advisory Council of the
15 Ontario IESO, and the Boards of Directors of the Northeast Energy and
16 Commerce Association, the Independent Power Producers of New York and the
17 Electric Power Generators Association of Pennsylvania. I have been an active
18 participant in electric restructuring matters, and have regularly appeared and
19 testified before FERC and numerous state and provincial legislative committees
20 and utility commissions, including this Commission.

1 **II. Overview of Testimony**

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

3 **A.** My testimony discusses the standard that the Commission should apply in this
4 case to decide whether customers should bear the risks associated with a 15 year
5 power purchase and renewable energy certificate (“REC”) commitment by PSNH
6 and, specifically, the reasons that PSNH’s approach in this case makes it
7 essentially impossible for the Commission to conduct such a review, let alone
8 determine that the contracts that PSNH has entered into meet the standard set
9 forth in RSA 362-F. I conclude that PSNH has not demonstrated that the
10 contracts presented in this case are in the public interest, and therefore the
11 Commission should not approve them.

12
13 **III. Applicable Legal Standard**

14 **Q. What is the standard under which the Commission is reviewing PSNH’s**
15 **filing in this proceeding and what aspects of that standard is your testimony**
16 **intended to focus on?**

17 **A.** As Mr. Wicker notes in his testimony, RSA 362-F:9 provides the standard that is
18 applicable to this case. In pertinent part, it provides as follows:

19
20 I. Upon the request of one or more electric distribution
21 companies and after notice and hearing, the commission may
22 authorize such company or companies to enter into multi-year
23 purchase agreements with renewable energy sources for
24 certificates, in conjunction with or independent of purchased
25 power agreements from such sources, to meet reasonably projected
26 renewable portfolio requirements and default service needs to the
27 extent of such requirements, if it finds such agreements or such an

1 approach, as may be conditioned by the commission, to be in the
2 public interest.

3
4 II. In determining the public interest, the commission shall find
5 that the proposal is, on balance, substantially consistent with the
6 following factors:

7
8 (a) The efficient and cost-effective realization of the purposes
9 and goals of this chapter;

10
11 (b) The restructuring policy principles of RSA 374-F:3;

12
13 (c) The extent to which such multi-year procurements are
14 likely to create a reasonable mix of resources, in combination with
15 the company's overall energy and capacity portfolio, in light of the
16 energy policy set forth in RSA 378:37 and either the distribution
17 company's integrated least cost resource plan pursuant to RSA
18 378:37-41, if applicable, or a portfolio management strategy for
19 default service procurement that balances potential benefits and
20 risks to default service customers;

21
22 (d) The extent to which such procurement is conducted in a
23 manner that is administratively efficient and promotes market-
24 driven competitive innovations and solutions; and

25
26 (e) Economic development and environmental benefits for
27 New Hampshire.

28
29
30 The statute makes clear that among the critical considerations the Commission
31 must evaluate in determining whether the agreements submitted by PSNH are in
32 the public interest are whether the agreements are cost-effective, whether they are
33 consistent with the restructuring policy principles of RSA 374-F:3, and whether
34 the process by which the agreements were procured was conducted in a manner
35 that is administratively efficient and promotes market-driven competitive
36 innovations and solutions. My testimony focuses on these points because PSNH's
37 testimony gives little or no consideration to them and they are mandatory factors

1 in the Commission's determination of whether to pass along to customers the
2 costs incurred by PSNH under the agreement.

3
4 **Q. Are there other applicable standards or considerations that you believe the
5 Commission should weigh in reaching a decision in this case?**

6 **A.** Yes. Obviously there are many regulatory principles that apply to a case such as
7 this, but there are a few that I think warrant particular attention. First, in its Order
8 No. 24,839 issued on April 4, 2008 in DE 07-125 relating to PSNH's petition
9 seeking approval of power purchase agreements with Pinetree Power and Pinetree
10 Power-Tamworth, the Commission noted approvingly that "the three-year
11 maximum term of the agreements . . . avoid[s] the need to make long range
12 projections about the movements of the energy market." Slip Op. at 9. As I will
13 discuss below, the much longer term of the contracts at issue in the present case is
14 cause for considerable concern and requires the Commission, at a minimum, to
15 conduct a far more rigorous review than it conducted in DE 07-125.

16
17 Second, I believe the Commission should either require PSNH to conduct a
18 competitive bid process to procure RECs and long term power supply or, in the
19 alternative, impose a heightened burden of proof on PSNH. The Connecticut
20 Department of Public Utility Control has imposed such a process on Connecticut
21 utilities in similar circumstances. *See DPUC Examination of Electric*
22 *Distribution Company Contracts for Renewable Energy Certificates*, Dkt. 07-06-
23 61 (July 30, 2008), slip op. at 9 (where the DPU stated that it "strongly supports

1 an RFP [request for proposals] procurement process, but will not preclude
2 negotiated contracts, provided the EDCs [electric distribution companies] submit
3 sufficient documentation that meets a high burden of favorable market conditions
4 and ratepayer benefits.”)

5
6 Third, the passage of RSA 362-F did not repeal the provisions of New
7 Hampshire’s electric industry restructuring statute, RSA 374-F. In fact, it
8 specifically requires the Commission to take the principles set forth in RSA 374-
9 F:3 into account in determining whether agreements entered into under RSA 362-
10 F are in the public interest. RSA 374-F:3, XII, in turn, makes clear that the
11 Commission is charged with ensuring that electric utilities mitigate their stranded
12 costs, rather than create new ones. Thus, the greater the risk that an agreement
13 entered into under RSA 362-F could create new stranded costs, the greater the
14 weight that should be given to arguments that the agreement should be rejected by
15 the Commission. As the Commission implicitly recognized in the Pinetree Power
16 docket, because of the significantly increased uncertainty of long term price
17 forecasts, as the term of REC and purchased power agreements become longer,
18 the less able the Commission is to determine that new stranded costs will not be
19 incurred.

1 **IV. Determining Whether the PSNH/Lempster Agreements are Cost-Effective**

2 **Q. What is your position regarding the role of cost in determining whether the**
3 **agreements entered into by PSNH are in the public interest?**

4 **A.** Whether the agreements are cost-effective would appear to be the preeminent
5 factor that must be weighed by the Commission. I recognize that RSA 362-F sets
6 forth a number of different factors that are to be considered in determining
7 whether the agreements are in the public interest, but all things being equal, one
8 would expect PSNH to select the least cost option for meeting its resource needs.
9 Other factors may be important in selecting a resource option when costs of two
10 or more options are similar, but I do not believe that RSA 362-F directs PSNH to
11 procure power at costs higher than necessary. Thus, if there is a means available
12 to buy power at a lower cost in conjunction with the purchase of RECs and PSNH
13 failed to pursue such a process, the results of that failure should be rejected by the
14 Commission. This approach would seem self-evident, but it bears repeating in
15 light of PSNH's responses to data requests in this docket. (*See* PSNH's responses
16 to Constellation 1-6, 1-25 and 3-8 attached hereto as Attachment DWA-1, DWA-
17 2 and DWA-3.)

18
19 **Q. Was PSNH's procurement process flawed?**

20 **A.** As I will discuss later in my testimony, the proper resource procurement process
21 for a resource of the type at issue in this case would be an RFP. At the technical
22 session held on September 3, 2008, PSNH indicated that, in its view, an RFP
23 would not have been appropriate because its procurement process occurred before

1 the passage of RSA 362-F. (PSNH later confirmed this in response to Data
2 Request Constellation 1-24, after the Commission granted Constellation's Motion
3 to Compel. A copy of that response is attached to my testimony as Attachment
4 DWA-4.) If the resource was being procured for PSNH's customers, then the
5 timing would seem to be irrelevant. Presumably, PSNH's point in noting the
6 timing of the procurement process was to indicate that the resource was not
7 initially procured for customers (or at least not at their risk), but rather at the risk
8 of shareholders. In fact, this position is consistent with prior statements by
9 PSNH, including one made at a technical session in DE 06-125, where PSNH
10 indicated its intention to enter into REC and power purchase agreements with
11 Lempster on a below-the-line basis, meaning that the costs and risks associated
12 with the contract obligations would be borne entirely by shareholders, not the
13 Company's customers. Certainly, PSNH's statements on the resource
14 procurement process are somewhat confusing given that the agreements presented
15 in this case bear an effective date of January 2, 2008, which is six months *after*
16 the date when RSA 362-F became law.

17
18 To the extent that PSNH's position is that it need not have conducted an RFP
19 because it first committed to this resource on a below-the-line basis and is now
20 transferring it above-the-line (i.e., is seeking to recover the associated costs
21 through the regulatory process), the Commission should review the contracts
22 under the same standard as it applies to affiliate transactions because the
23 transaction in this case is essentially the same as a transfer from an unregulated

1 affiliate to the regulated company. On the other hand, if PSNH changes its
2 position and argues that, because the agreements were not signed (or perhaps
3 were re-signed) after the Renewable Portfolio Standard (“RPS”) went into effect
4 and that the agreements were always intended to be used above-the-line, then I
5 strongly believe that an RFP process should have been used. In either case, the
6 analysis that should be conducted is similar, namely the Commission must
7 determine how the costs incurred under the agreements compare to the market.
8 For reasons that I will explain below, there is no sufficient substitute in a case like
9 this for actually conducting an RFP to determine the market price.

10

11 **Q. What is wrong with PSNH’s deciding to attempt to transfer the Lempster**
12 **contracts from a below-the-line status to above-the-line?**

13 **A.** The problem with such a transfer is that when PSNH enters into such contracts on
14 a below-the-line basis, it is doing so on a merchant basis, exactly the same as if
15 the contracts had been entered into and held by a competitive affiliate of PSNH
16 (such as its former affiliate Select Energy). A merchant contract is a merchant
17 contract, whether it is entered into by Northeast Utilities through a merchant
18 affiliate or on a below-the-line basis by PSNH. When such contracts are
19 transferred to an above-the-line status, the risks and costs associated with the
20 contracts are also transferred to and become borne by customers instead of
21 shareholders.

1 **Q. If PSNH is a regulated utility, how can it enter into merchant contracts?**

2 **A.** My understanding is that there is no legal requirement that PSNH conduct only
3 regulated utility functions. If it chooses to enter into power purchase obligations
4 that go beyond what is needed to serve its default service requirements at any
5 given time, such obligations are at the risk of the company's shareholders.

6 Specifically, to the extent that the contracts result in prices that turn out to be
7 above the market price when the power is required (i.e., PSNH has created new
8 stranded costs), the company and its shareholders, not customers, bear that risk.

9
10 **Q. Why does that matter in this case?**

11 **A.** Because in this case, the Company is seeking to transfer to customers the risk that
12 the 15 year contracts with Lempster will create new stranded costs, something
13 that is contrary to the intent of RSA 374-F. Moreover, unless the Commission
14 conducts the appropriate review in this case, allowing PSNH to accomplish such a
15 transfer would effectively circumvent the customer protections set forth in the
16 Commission's affiliate transaction rules, N.H. Code of Admin. Rules Puc Ch.
17 2100, which require that the contract be transferred at the lower of the fully
18 loaded cost or market value. *See* Puc 2105.09(3). If it is PSNH's position that an
19 RFP was not appropriate in this case because the company entered into a
20 commitment with Lempster initially on a below-the-line basis, it should be
21 required to demonstrate that the contract meets the standards set forth in these
22 rules. PSNH should bear the burden of showing that the costs under the contracts
23 are less than the market value of the contracts.

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Although PSNH proposes to transfer the Lempster contracts at cost, it has not provided any basis that would support a determination that its cost is less than the market value of the contracts, as would be required by Puc 2105.09(3). As I discuss below, the circumstances of the transfer and the lack of any competitive bidding process to fill the resource need that PSNH claims to be seeking to fill with the contract make the transfer highly suspect and should cause the Commission to reject it.

Q. What is it about the circumstances of PSNH's attempted transfer of the contract that is cause for concern?

A. As I noted earlier, when PSNH committed to the arrangement with Lempster, it did so on the basis that shareholders would bear the risk associated with the contract. If the contracts were currently “in the money,” the rational business decision would be for PSNH to retain the contracts below-the-line and reap the benefits for itself and its shareholders. Although it is impossible to know for sure, it is reasonable to infer that if PSNH and its shareholders are now willing to forgo any benefit associated with these contracts, it is doing so for a rational business reason, which could be either that it believes that those benefits are minimal or non-existent or, that it believes that, over the long run, the contracts either will result in a net cost (i.e., stranded costs) or are too risky to retain for its shareholders' account. Such a scenario is also consistent with PSNH's fiduciary

1 duty, as established by law, that it act in the best interest of shareholders. My
2 main point, however, is that it is impossible to tell.

3
4 Certainly, if the below-the-line transactions had occurred as assumed under the
5 Commission's affiliate transaction regulations, the Commission would give the
6 transaction extremely close scrutiny and would hold PSNH to the highest standard
7 of proof, including the provisions of Puc 2105.09. I believe that form should not
8 be elevated above substance and that the same treatment should be applied to the
9 present transaction. The Lempster contract was a merchant contract from a
10 financial or economic standpoint, and the fact that PSNH now proposes to
11 purchase the contract from the merchant side of its balance sheet doesn't change
12 that.

13
14 **Q. If PSNH is simply transferring the Lempster contracts from the**
15 **shareholders' side of the ledger to the customers' side of the ledger, why**
16 **would you expect it to conduct an RFP?**

17 **A.** Absent an RFP, there is no adequate way to know that PSNH obtained the most
18 cost-effective resource at the best available terms. Transferring the Lempster
19 contracts from the merchant side of its balance sheet to the regulated side, is no
20 different than allowing PSNH to sole source the procurement process to its own
21 merchant affiliate.

22

1 **Q. What is wrong with the fact that PSNH did not provide a market test or RFP**
2 **against which to compare the costs it proposes to impose on customers under**
3 **the agreements it has presented in this case?**

4 **A.** As I noted briefly above, the problem is that PSNH's proposal shifts to customers
5 the risk of substantial new stranded costs, which is precisely what RSA 374-F was
6 intended to prevent. One of the basic tenets of the electric restructuring statute
7 was to prevent the creation of new stranded costs and to shift away from
8 customers the risks associated with investment in generation assets. The
9 Legislature has not changed that priority.

10
11 I recognize that PSNH will argue that, by authorizing long term power purchase
12 agreements under certain circumstances set forth in RSA 362-F, the Legislature
13 has in fact changed its previous directive under RSA 374-F, but the policy under
14 RSA 362-F is far more limited than that. RSA 362-F makes clear that the policies
15 of RSA 374-F are still a critical consideration. PSNH bears the burden in this
16 proceeding of demonstrating that its power procurement process minimizes the
17 risk to customers, yet here just the opposite has occurred.

18
19 **V. The Proper Process for Procuring RECs**

20 **Q. How would a proper procurement process by a regulated utility work for**
21 **contracts of the kind presented in this docket?**

22 **A.** In my experience, the most efficient, effective and common practice for procuring
23 energy resources, including the type at issue in this proceeding, is through a

1 competitive procurement process, such as an RFP. A competitive procurement
2 process such as an RFP offers a number of important benefits, especially by
3 providing appropriate protections from affiliate preference and encouraging
4 market-based, competitively priced services. RFPs are used extensively by
5 utilities because, among other things, they provide regulators with assurance that
6 the resource at issue was procured in an unbiased manner and contracted for at
7 least cost among all qualified bids. In addition, to protect consumers and assure
8 non-discriminatory and transparent processes, a competitive RFP process assists
9 regulators to maintain stewardship of procurements, including when desired using
10 an independent third party overseer and consultant. RFP processes often are
11 referred to as being “transparent” because they provide a reviewable and
12 verifiable method that enables regulators to determine that the best interests of
13 customers have been satisfied.

14
15 A recent report to the Federal Energy Regulatory Commission by Drs. Susan F.
16 Tierney and Todd Schatzki of the Analysis Group commissioned by the National
17 Association of Regulatory Utility Commissioners ("NARUC Report") discusses
18 in detail the benefits of competitive procurements for obtaining resources for
19 utilities – particularly new, advanced technology resources – and providing
20 guidelines for designing such competitive procurements.¹ The NARUC Report
21 explains that, today, more than 40 percent of U.S. states have formal rules that

¹ See *Competitive Procurement of Retail Electric Supply: Recent Trends in State Policies and Utility Practices*, Drs. Susan F. Tierney and Todd Schatzki, Analysis Group (July 2008), available at http://www.analysisgroup.com/analysisgroup/uploadedFiles/Publishing/Articles/Competitive_Procurement.pdf.

1 encourage or require utilities to utilize competitive procurements.² Moreover, the
2 NARUC Report finds that “[c]ompetitive procurements can provide utilities with
3 a way of obtaining electric supply that has the ‘best’ fit to customers’ needs at the
4 ‘best’ possible terms . . . by requiring market participants to compete for the
5 opportunity to provide these services.”³

6
7 **Q. Are there other processes that the Commission might follow to determine
8 whether the price at which power and RECs are obtained is cost-effective?**

9 **A.** One process that has previously been used for purchased power obligations in
10 New Hampshire, but that has significant drawbacks, is to determine the utility’s
11 long term avoided cost and then approve purchased power contracts that procure
12 power at a cost that is at or below that level. Such a process was used for many of
13 the long term rate orders and renewable energy power purchase agreements
14 entered into by PSNH under the Public Utility Regulatory Policies Act
15 (“PURPA”) a number of years ago. As the Commission is aware, however, the
16 avoided cost process is flawed because it only ensures that the price of purchased
17 power is less than a hypothetical alternative projected cost, but does not actually
18 ensure that the contract entered into is less costly than all other reasonably
19 available options. In any case, New Hampshire’s unhappy history under such a
20 procurement process has certainly undermined public confidence in and largely
21 discredited the avoided cost approach because of the difficulty of actually
22 projecting PSNH’s long term avoided costs and the risks associated with relying

² *Id.* at p.i.

³ *Id.*

1 on such projections. For example, in *Re Public Service Company of New*
2 *Hampshire*, 86 NHPUC 558 (2001), the Commission observed:

3 PSNH stated that it was required under PURPA and LEEPA to purchase
4 energy from qualifying facilities but that, over time, these contracts have
5 proven uneconomic. According to PSNH, the power plants are responsible
6 for approximately \$100 million annually in additional stranded costs, that
7 the Legislature has attempted to address stranded costs and that the
8 Legislature has expressed its opinion that these rates hurt the state's
9 economy.

10
11 *Id.* at 560. Such concern is certainly consistent with the concern expressed by the
12 Commission earlier this year in the Pinetree proceeding.

13
14 The one positive thing I would say about the PURPA process conducted in New
15 Hampshire is that at least there was a good faith effort made through a very
16 public, transparent process to determine a benchmark to which the costs under the
17 proposed contracts would be compared. By contrast, in the current proceeding
18 PSNH's filing contains no such benchmark or other reasonable point of
19 comparison. A review of PSNH's submission in this case simply provides no
20 basis by which an agency charged with determining that the public interest has
21 been satisfied can determine that the contracts at issue are the most cost-effective
22 means to meet the criteria set forth in RSA 362-F. Not only has PSNH failed to
23 provide a compelling reason why a market test could not have been used, it has
24 failed to provide any alternative test.

1 **VI. Reasons for Particular Concern Regarding the Lempster Agreements**

2 **Q. Why is Constellation so concerned about the contracts at issue in this**
3 **proceeding?**

4 **A.** The contracts in this proceeding are for a 15 year term—an extraordinarily long
5 time in an electric industry that is undergoing rapid change, with steadily
6 increasing efficiency and innovation in new technologies and practices, and
7 subject to evolving regulatory structures. Cost projections over such an extended
8 period of time, particularly electric price forecasts and those for the nascent
9 renewable energy certificate market, are extremely unreliable. In addition, the
10 competitive electric market in New England is still in its formative stages.

11 Constellation is concerned that the Commission’s decision in this proceeding may
12 establish important precedents regarding how long term power procurements by
13 electric utilities are to be conducted in New Hampshire. The process that PSNH
14 used in this case is poorly adapted to protecting the interests of customers, and its
15 approval would set a dangerous precedent.

16

17 **Q. But RSA 362-F authorizes electric utilities to enter into enter into multi-year**
18 **purchase agreements for RECs in conjunction with purchased power. Isn't**
19 **that just what PSNH is proposing here?**

20 **A.** That may be just what PSNH has done here, but RSA 362-F merely states that the
21 Commission “may” approve such agreements, it does not approve them *a priori*.
22 The Legislature plainly left to the Commission the task of reviewing the particular
23 facts and circumstances of specific agreements to determine whether they were

1 necessary to meet the goals set forth in the statute. The burden remains on PSNH
2 to demonstrate why it is in the public interest for customers to bear the risk of
3 locking in a 15 year obligation, whether it be for the purchase of power, the
4 purchase of RECs or both.

5
6 PSNH's filing with the Commission provides no basis for the Commission to
7 determine that it was reasonably necessary for PSNH (at least on a regulated or
8 above-the-line basis) to enter into a 15 year power purchase agreement in order to
9 obtain Class I RECs at a reasonable price or even that obtaining RECs for a 15
10 year period was the best course of action. Most important, PSNH has provided no
11 evidence whatsoever to show that the procurement process it followed—
12 transferring an existing contractual obligation from the shareholder side of the
13 ledger to the customer side of the ledger—was reasonable or consistent with
14 applicable legal standards. At the same time, there is no doubt that the process
15 followed by PSNH is not consistent with how regulated utilities normally meet
16 their obligation to demonstrate that their procurement decisions are least cost and
17 in the public interest.

18
19 **Q. You mentioned that it may not be necessary to enter into a long term power
20 purchase agreement in order to procure RECs. What do you mean?**

21 **A.** PSNH's claim that there is a need for ratepayer-backed long-term agreements for
22 purchased power and RECs is vastly overstated. First, as the Commission is well
23 aware, RECs are traded independent of the power that is associated with them.

1 So, there is no need to procure the two together. Second, to the extent that one
2 might argue that a committed stream of revenue is required to support financing,
3 capacity payments are sufficient to meet that need and PSNH could simply have
4 agreed to a forward capacity arrangement. The Texas market provides proof of
5 this, where its market has witnessed a major construction boom in new generation
6 capacity – including wind – without long-term rate base contracts. In addition,
7 companies like Constellation and its peers have entered into long-term bilateral
8 purchase agreements with renewable generators to supply either retail or
9 wholesale customers, without the need for a traditional rate base from which to
10 recover the cost of those purchases. Some recent examples involving renewable
11 power facilities in New England include:

- 12 • Reddington Mountain Wind (Maine) – 90 MW (100% of output) of wind
13 plant located in Reddington, Maine;
- 14 • Brightfields/City of Brockton (Massachusetts) – 400 kW of solar energy plant
15 located in Brockton, Massachusetts;
- 16 • Commonwealth Energy Bedford (Massachusetts) – 3.2 MW landfill gas plant
17 located in New Bedford, Massachusetts;
- 18 • Ameresco (Massachusetts) – 1 MW landfill gas plant located in Northampton,
19 Massachusetts.

20 The idea that, immediately upon passage of New Hampshire's RPS statute, PSNH
21 had to enter into a 15 year agreement for purchased power, capacity and RECs in
22 order to ensure that New Hampshire would have sufficient renewable energy
23 sources in the future to meet the goals set forth in the legislation has no

1 meaningful basis. Instead, PSNH's willingness to leap into the renewable
2 generation market on such a long term basis and pass the risk off to customers
3 gives the marketplace no time to demonstrate its ability to meet those goals.

4
5 **Q. Are there other aspects of the transaction proposed by PSNH in this**
6 **particular case that cause you concern as to whether PSNH's approach is the**
7 **best way to satisfy its RPS obligations?**

8 **A.** In addition to the issues with the procurement process that I discussed earlier, the
9 contracts in this case provide Lempster Wind with a buy-back option for the
10 RECs that PSNH is attempting to procure. As a result, it is quite possible that
11 PSNH will have to replace the RECs with others and, if it is required to do so, it is
12 almost certain that this need would arise because of a substantial increase in the
13 market cost of RECs. If that were to occur, there may be additional costs to
14 customers to procure RECs to replace the ones bought back by Lempster.

15
16 Also, as I have already discussed, the long term nature of the agreements in this
17 case is extremely suspect. Whether examining the purchased power or the RECs,
18 the potential to create new stranded costs is greatly increased by the 15 year term
19 of these agreements. If PSNH's power and REC price forecasts turn out to be
20 wrong, customers could end up paying above market costs for these resources.
21 That is something that is unknowable today, but it is exactly that type of risk that
22 RSA 374-F was intended to eliminate. There is a major difference between
23 entering into an agreement for a period of two to three or even five to six years,

1 for which forecasts may have some limited integrity, and a fifteen year agreement,
2 for which the risk is geometrically higher.

3

4 **VII. Conclusion**

5 **Q. What action do you recommend the Commission take in this proceeding?**

6 **A.** Based on the information provided by PSNH in its filing, the Commission should
7 determine that PSNH is not authorized to recover the costs of the Lempster
8 agreements through rates.

9

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

11 **A.** Yes, at this time.

12

13