

THE STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES
COMMISSION

Docket No. DE 09-035

DIRECT TESTIMONY OF

Stephen R. Hall

Request for Temporary Delivery Rates

April 17, 2009

000015

1 **I. INTRODUCTION**

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

3 A. My name is Stephen R. Hall. My business address is PSNH Energy Park, 780 North
4 Commercial Street, Manchester, New Hampshire. I am Rate and Regulatory Services
5 Manager for Public Service Company of New Hampshire (“PSNH”).

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

7 A. Yes, I have testified on numerous occasions before the Commission over the past twenty-
8 nine years.

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

10 A. The purpose of my testimony is to present PSNH’s tariff pages containing temporary
11 rates designed to recover the revenue requirements described in Mr. Baumann’s
12 testimony. I will also discuss PSNH’s revenue pro forma adjustments, the allocation of
13 revenue requirements to customer class and the resulting rate design that PSNH used to
14 calculate the temporary rates.

15 **II. REVENUE PRO FORMA ADJUSTMENTS**

16 **Q. Please describe PSNH’s revenue pro forma adjustments.**

17 A. Schedule 1 Attachment contains the revenue pro forma adjustments that PSNH has made
18 and included in the revenue requirements calculations performed by Mr. Baumann. The
19 net amount of these adjustments is to decrease test year distribution revenue by \$292,000.
20 Each of the adjustments that comprise this amount is described below:

21 **Page 2: Reflect lower distribution revenue due to the expiration of special pricing**
22 **arrangements (\$-93,000)** – This adjustment is to recognize the termination during the
23 test year or within twelve months thereafter of service agreements for approximately
24 twenty customers served under PSNH’s Sawmill Retention Delivery Service Rate SR.
25 Under the “Agreement to Settle PSNH Restructuring” (Restructuring Settlement)
26 approved in Docket No. DE 99-099, PSNH imputed the distribution revenue associated
27 with special pricing at the overall average distribution charge. With the expiration of the
28 special pricing arrangements, billing will revert to standard tariff rates, and the
29 distribution revenue received from those customers must be adjusted to reflect the
30 amount of distribution revenue that PSNH will receive under standard tariff rates. While

1 the amount of distribution revenue that PSNH will receive is lower, that reduction is
2 more than offset by an increase in stranded cost recovery from those customers once the
3 special pricing terminates, thus moderating rates for all other customers.

4 **Page 3: Reflect billed retail revenue at the July 1, 2008 rate level for the entire test**
5 **year (\$-199,000)** – This adjustment is to revise downward PSNH’s billed revenue in the
6 test year to recognize that PSNH’s distribution rates decreased on July 1, 2008. The
7 decrease was due to the completion of recovery of the recoupment amount allowed in
8 PSNH’s last rate case (Docket No. DE 06-028), partially offset by an allowed increase in
9 the amount of Major Storm Cost Recovery regulatory asset amortization that commenced
10 on July 1, 2008.

11 **III. DELIVERY SERVICE TARIFF PAGES AND RATE DESIGN**

12 **Q. Please describe PSNH’s proposed Delivery Service tariff pages.**

13 A. Attachment SRH-1 contains Supplement No. 1 to Delivery Service Tariff NHPUC No. 6.
14 The tariff pages in this Supplement contain temporary distribution rates that will remain
15 in effect until new permanent rates are placed into effect pursuant to RSA 378.
16 Under Rule Puc 1603.08(a)(4), tariff supplements are required when a utility proposes to
17 establish a temporary modification of an existing tariff. In addition to filing Supplement
18 No. 1, we are also filing tariff pages to revise the Table of Contents and Section 21 of the
19 Terms and Conditions. We have added language to this section stating that the rates
20 contained in Supplement No. 1 are temporary as of July 1, 2009, subject to refund or
21 recoupment, pending the outcome of PSNH’s permanent rate case. Attachment SRH-2
22 contains a “black lined” version of the tariff pages showing the revisions that are being
23 proposed from the currently effective tariff pages.

24 **Q. Will you be proposing any changes to the rates and charges contained in**
25 **Supplement No. 1 prior to the proposed effective date?**

26 A. Yes, we will. The rates and charges in Supplement No. 1 include stranded cost recovery
27 charges at the currently effective levels. Those charges are subject to change as of July 1,
28 2009. In mid-May, PSNH will be filing a formal proposal to revise its Energy Service
29 rate and its Stranded Cost Recovery Charge (SCRC) effective July 1, 2009. Additionally,
30 in early June, PSNH will file a proposal to revise its Transmission Cost Adjustment
31 Mechanism (TCAM) charge, also effective July 1, 2009.

1 While revising the Energy Service rate in the tariff is relatively straightforward and
2 requires changing only one tariff page, changing the SCRC and TCAM charge requires
3 changes to several tariff pages, since the SCRC and TCAM charge are recovered through
4 both demand and energy charges in various rate classes and are not applied on a uniform
5 cents per kWh basis.

6 **Q. Why can't you determine now what the level of stranded costs and TCAM charge**
7 **will be as of July 1, 2009?**

8 A. The level of stranded costs to be recovered through PSNH's rates is, in part, a function of
9 the level of the Energy Service rate. The SCRC recovers Part 1 and Part 2 stranded costs,
10 as defined under the Restructuring Settlement. Part 2 costs are primarily over-market
11 energy costs from IPP purchases mandated under PURPA/LEEPA. In order to determine
12 these above-market IPP costs, it is necessary to estimate wholesale market prices for
13 power, which change daily. The market value of IPP power is recovered through
14 PSNH's Energy Service rate, which is subject to review and possible change on July 1,
15 2009. Because of the relationship between the above-market IPP costs recovered through
16 Part 2 of the SCRC and the market value of IPP power recovered through PSNH's
17 Energy Service charge, it is necessary to determine those two components of rates using
18 the same market price forecast. Otherwise, there will be a mismatch between the two
19 components which could result in large overrecoveries or underrecoveries of costs, in
20 turn producing large changes to rates. By using the same market price forecast to
21 determine the above market IPP costs recovered in Part 2 and the market value of IPP
22 power recovered through the Energy Service charge, any difference between forecasted
23 market prices and actual market prices will not produce significant changes to overall rate
24 level. That is because if there is an overrecovery in one of these components of rates,
25 there will be an underrecovery in the other component, resulting in little impact on
26 overall rate level.

27 Once PSNH makes its filing for its forecasted energy costs for the second half of the
28 year, the Commission will likely open a docket to determine whether the Energy Service
29 rate should change as of July 1, 2009. If the Commission determines that the Energy
30 Service rate for the second half of the year should be revised based on a revised market
31 price forecast, there should be a corresponding and opposite change to PSNH's stranded
32 cost recovery charge for the reason discussed above. If the Commission decides that
33 there is no need to revise PSNH's Energy Service rate to reflect a revised market price

1 forecast as of July 1, then the SCRC rates will not change. However, as shown in Mr.
2 Baumann's Attachments RAB-5 and RAB-6, based on actual data through February 2009
3 and updated forecasted data through December 2009, PSNH projects a sizable
4 overrecovery in the Energy Service rate and a small increase in the SCRC rate.
5 Therefore, PSNH anticipates that both Energy Service and SCRC rates will change as of
6 July 1, 2009.

7 With respect to the TCAM charge, that charge is based, in part, on the cost of Regional
8 Network Service (RNS) in New England. The RNS rate changes on June 1 of each year.
9 Therefore, PSNH will not have information available to calculate its TCAM charge until
10 the beginning of June when the new RNS rate takes effect.

11 **Q. In view of the uncertainty associated with the SCRC, the Energy Service rate and**
12 **the TCAM charge, what information is available to provide the Commission with an**
13 **indication of what those rates might be as of July 1, 2009?**

14 A. We have a projection of PSNH's SCRC and Energy Service rate as of July 1, 2009 if one
15 assumes that forward market prices for the remainder of the year will not change between
16 now and July 1. If we assume that the Energy Service rate overrecovery that has been
17 projected using actual data through February is refunded during the second half of the
18 year, the Energy Service rate would be 9.13¢ per kWh, as shown in Mr. Baumann's
19 Attachment RAB-5. Additionally, if the current forward market prices hold, the average
20 SCRC rate as of July 1, 2009 would be approximately 1.12¢ per kWh, as shown in Mr.
21 Baumann's Attachment RAB-6. Using these two amounts, PSNH has developed a
22 projected overall net rate decrease of approximately 4.3% as of July 1, 2009 attributable
23 to these two rate changes. In mid May, PSNH will propose a specific SCRC and Energy
24 Service rate, so the rate change that customers will receive on July 1 could vary to the
25 extent that those two charges vary from the amounts projected above.

26 PSNH cannot forecast what the TCAM charge will be because, as discussed by Mr.
27 Baumann, the RNS rate is dependent upon input from utilities throughout New England.

28 Therefore, for the purpose of estimating the net rate change that will occur, PSNH has
29 assumed that the currently-effective TCAM charge will remain in effect on and after
30 July 1, 2009.

1 **Q. Please describe the allocation of revenue requirements to class and the resulting rate**
2 **design reflected in tariff pages contained in Supplement No. 1.**

3 A. PSNH has designed its temporary rates to ensure that all of the unbundled distribution
4 rates for each class were adjusted on a uniform percentage basis. By adjusting each rate
5 by a uniform amount, PSNH maintained the existing class-by-class revenue responsibility
6 and rate design.

7 The uniform adjustment amount was determined by taking the ratio of the proposed
8 distribution revenue requirement discussed in Mr. Baumann's testimony to the existing
9 revenue level. That ratio was then used to adjust each component of existing rates (e.g.,
10 customer, demand and energy charges).

11 Attachment SRH-3 shows the proposed distribution revenue by rate class, and also shows
12 the projected SCRC and Energy Service revenue by rate class using the rates discussed
13 above.

14 Attachment SRH-4 contains PSNH's workpapers for calculating proposed distribution
15 rates and charges. Attachment SRH-4 shows all of the distribution rates and charges by
16 class and rate component for current rates and for the proposed July 1, 2009 rates. For
17 distribution rates, the amounts in the "Current Rates" columns on pages 2 through 5 were
18 multiplied by the ratio shown on page 1.

19 **Q. Please reconcile the difference between the test year revenue amounts shown on**
20 **Attachment SRH-4 with the operating revenue amounts shown on Mr. Baumann's**
21 **Schedule 1, Page 1.**

22 A. Mr. Baumann's Schedule 1, Page 1 shows total operating revenue, which includes not
23 only billed distribution revenue, but also unbilled revenue, wholesale revenue and other
24 operating revenues (late payment charges, miscellaneous service revenue, transformer
25 rental revenue, and other electric revenue). Attachment SRH-4 shows only billed
26 distribution revenue. A summary of the difference is shown on Attachment SRH-5.

27 **IV. RATE CHANGE DUE TO TEMPORARY RATES**

28 **Q. Please describe the Attachment SRH-6.**

1 A. Attachment SRH-6 is the "Report of Proposed Rate Changes" showing the proposed
 2 distribution rate changes on a class-by-class basis. The report shows an overall increase
 3 of 3.0 % attributable exclusively to proposed temporary distribution charges. Since the
 4 July 1, 2009 SCRC, Energy Service rate and TCAM rate are not yet known, all of the
 5 revenue amounts in this report (in both the current and proposed columns) are premised
 6 upon the currently effective SCRC, Energy Service and TCAM charges. However,
 7 because of the changes that will likely occur to the Energy Service rate and the SCRC
 8 rate, Attachment SRH-6 does not show the anticipated overall change to rate level that
 9 will occur on July 1, 2009. If we combine the effect of the projected Energy Service rate
 10 decrease, the projected SCRC rate increase and the proposed temporary distribution rate
 11 increase, the overall effect on rate level is a decrease of 1.3 %. This net amount is more
 12 representative of the amount that rates will change on July 1, 2009, excluding the effect
 13 of any change to the TCAM charge.

14 **Q. Will all customers in each class receive the same percent change to bill amounts?**

15 A. No, they will not. There will be changes to four components of PSNH's rates
 16 (transmission, distribution, Energy Service and stranded cost), and those changes will
 17 impact customer, demand and energy (kWh) charges in differing proportions. Therefore,
 18 the amount of change on a class-by-class basis (and on a customer-by-customer basis)
 19 will vary as a result of differences between class rate structures and consumption
 20 characteristics among customers. The table below shows an estimate of the net effect of
 21 the rate changes discussed above by major rate class, excluding any change to the TCAM
 22 charge:

23	Residential	0.0%
24	General Service Rate G	-1.0%
25	Primary General Service Rate GV	-3.0%
26	Large General Service Rate LG	-3.8%
27	Outdoor Lighting	<u>6.3%</u>
28	Total	-1.3%

29 **Q. Please discuss the impact of the temporary distribution rate changes on overall rate**
 30 **level assuming that PSNH's proposed temporary rates are approved as compared to**
 31 **what would occur if the current level of rates were made temporary.**

1 A. With the Energy Service rate likely to decrease on July 1, 2009, that decrease will
2 moderate the impact of a temporary distribution rate increase. Once the permanent rate
3 case is completed, temporary rates will be reconciled from July 1, 2009 to the date that
4 permanent rates take effect. Assuming that the Commission accepts PSNH's proposed
5 permanent rate level, the reconciliation would produce a short-term increase to
6 distribution rates (to recoup the revenue shortfall that occurs during the time frame in
7 which temporary rates are in effect), plus a permanent increase to distribution rates equal
8 to the difference between the temporary and permanent rate levels.

9 If temporary rates are set at a lower level than that proposed by PSNH (at current level,
10 for example), there would be a rate decrease on July 1, 2009 (as a result of the Energy
11 Service rate), and the rate increase at the conclusion of the rate case would be larger.
12 Moreover, we don't know what the Energy Service rate, Stranded Cost Recovery Charge
13 or TCAM rate will be at the time that permanent rates will be placed into effect.
14 Therefore, PSNH is recommending implementation of temporary rates at the proposed
15 level, with the understanding that any difference between the permanent rate level and the
16 temporary rate level will be recouped or refunded to customers, with a return, over an
17 acceptable future period. If temporary rates are set at a lower level, the amount of
18 recoupment would compound the effect of a permanent rate increase.

19 **Q. What would happen if the Commission approves permanent rates at a level lower**
20 **than temporary rates?**

21 A. In that event, there would be an over-recovery which would be refunded to customers
22 once lower permanent rates took effect. However, PSNH's request for temporary rates is
23 conservative, since it is based upon actual results for 2008, proformed for known and
24 measureable changes. Therefore, we believe the above scenario is unlikely to occur, and
25 we urge the Commission to approve PSNH's proposed temporary rates as filed.

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

27 A. Yes, it does.