

THE STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE  
RECONCILIATION OF STRANDED COSTS AND ENERGY SERVICE CHARGE  
FOR 2008

Docket No. DE 09-091

Stipulation and Settlement Agreement

This Stipulation and Settlement Agreement is entered into as of the date written below between Public Service Company of New Hampshire (“PSNH”), the Office of Consumer Advocate (“OCA”), and the Staff of the Public Utilities Commission (“Staff”), hereinafter “the Parties and Staff.” This Stipulation and Settlement resolves, and represents a compromise of, all of the issues in this proceeding, except as specifically noted herein.

I. Background

On May 1, 2009, PSNH filed testimony and exhibits with the Commission with respect to the reconciliation of stranded costs and energy service costs incurred in 2008 with revenues recovered in 2008 through the Stranded Cost Recovery Charge (“SCRC”) and Energy Service rate.

The Commission conducted a prehearing conference on July 23, 2009, and the Parties and Staff conducted a technical session immediately following the proceeding. The Parties and Staff agreed to a procedural schedule that was approved by the Commission on August 5, 2009. Certain modifications to the schedule were approved on October 19, 2009.

II. Staff and OCA Testimony

A. Staff Testimony

Staff, through its consultant, Michael D. Cannata, Jr. filed testimony on PSNH’s power procurement activities and the operation of its generating stations. Mr. Cannata recommended disallowance of the replacement power costs related to three outages at PSNH’s units: Outage Schiller CT-1-A, Outage Schiller CT-1-B and Outage Jackman 1-E. The replacement power costs for each of these outages was approximately as follows:

Schiller CT-1-A	\$6,000
Schiller CT-1-B	9,000
Jackman 1-E	60,000

Mr. Cannata made additional recommendations pursuant to his review of unit outages. Mr. Cannata recommended that the Commission conduct an after-the-fact review of PSNH's efforts to mitigate costs to customers with respect to three outages (MK-2-E, Newington 1-C and Newington 1-D). Mr. Cannata also recommended that PSNH prepare a report by February 1, 2010 for all Alstom warranty issues relating to outages at Schiller Unit 5, and update that report in future SCRC filings until all such issues are resolved. Mr. Cannata also recommended that PSNH evaluate the need for heaters in the isophase bus ducts at Merrimack and Schiller Stations. Regarding outage Garvins 4-D, Mr. Cannata recommended that PSNH review its procedures when a low oil alarm is received by the dispatcher because the alarm does not differentiate between a low oil or no oil condition.

With respect to distribution system rights of way, Mr. Cannata recommended that National Electrical Safety Code patrols be performed on all distribution facilities on a four-year schedule in order to eliminate generating unit outages resulting from problems on PSNH's 34.5 kV system. Mr. Cannata also recommended that PSNH address danger trees outside of 34.5 kV rights of way and determine where PSNH does and does not have rights to remove such danger trees. Mr. Cannata suggested that these two recommendations should be specifically addressed in PSNH's 2009 Reliability Enhancement Program contained in PSNH's current distribution rate case (Docket No. DE 09-035).

Finally, Mr. Cannata recommended that PSNH perform interconnection analyses for all combustion turbines and hydro-electric units connected at lower voltages, and that PSNH establish an appropriate relay testing program for all combustion turbines and hydro-electric units. Mr. Cannata stated that, concurrent with its next annual energy service and stranded cost recovery charge reconciliation filing, PSNH should file a report describing its actions to date along with an estimated completion schedule.

With respect to recommendations unrelated to Mr. Cannata's review of specific unit outages, he recommended (i) that PSNH perform an evaluation of procuring spare critical generator and turbine components or entering into arrangements with others to reduce the risk of catastrophic failures; (ii) that contractual arrangements with manufacturers of major components and that such arrangements hold the manufacturer responsible for unreasonable delays have plans in place for transporting such components; and (iii) that PSNH perform its own analysis of outage maintenance cycle extensions rather than relying solely on the manufacturer's recommendations associated with major components.

#### B. OCA Testimony

The OCA, through Assistant Consumer Advocate Kenneth E. Traum, filed testimony on costs related to an outage required to inspect the turbine at Merrimack Station Unit 2 for damage. Mr. Traum also addressed PSNH's management of its coal inventory at Merrimack and Schiller Stations. Mr. Traum recommended disallowance of \$13.2 million of replacement power cost associated with the outage MK-2-E at Merrimack Station which occurred from June 20, 2008 to July 14, 2008. Mr. Traum also recommended that PSNH reduce its coal inventory to a range near its target inventory level, unless PSNH demonstrates a need to significantly exceed the target level.

### III. Settlement Terms

#### A. Power Supply and Procurement

The Parties and Staff agree that PSNH's filing contains an accurate representation of the capacity and energy purchases in 2008. Staff and PSNH agree that PSNH made sound management decisions with regard to such purchases, and that capacity factor projections used for 2008 market purchases were reasonable. The OCA takes no position on these issues.

#### B. Unit Outages

PSNH and Staff recommend that replacement power costs for outage MK-2-E be recovered by PSNH. The OCA does not oppose this in order to reach this settlement and resolve the issues in this docket. The Parties and Staff also agree that there will be an opportunity to review PSNH's actions to recover costs or obtain additional value for customers from third parties related to the outage, including the review of any results or reports of related investigations by PSNH or third parties, and the results of efforts to recover costs either from PSNH's insurance company or directly from vendors. PSNH will continue to aggressively pursue recovery of these costs, and agrees that any recovery from third parties will be credited to customers. The Parties and Staff believe that this process can take place during the 2009 reconciliation docket in 2010; however, it is possible that this schedule may not work, and that the review may need to take place at a later time. PSNH agrees to provide the information as soon as practicable to facilitate the earliest possible review.

PSNH agrees that it will not seek recovery of \$15,000 of replacement power costs associated with outages Schiller CT-1-A, Schiller CT-1-B and of \$45,000 of replacement power costs associated with outage Jackman 1-E. PSNH will credit its Energy Service costs by \$60,000 upon Commission acceptance of this Stipulation and Settlement. PSNH's agreement to forego recovery of such replacement power cost is not an admission of imprudence, and is being done in an effort to reach settlement of these issues. PSNH will continue to aggressively pursue recovery of damages resulting from the outage at Jackman. To the extent that PSNH is able to recover any damages that are allocated to PSNH's generation function, it will retain the first \$45,000 of any such recovery, and will credit to customers any recovery over \$45,000.

### C. Coal Inventory

PSNH will take steps to gradually reduce its coal inventory over time to a level that is close to its target inventory level. PSNH will provide OCA and Staff with notification if it finds a need to increase its inventory to a level significantly above its target level. As part of its next energy service and stranded cost recovery charge reconciliation filing, PSNH will provide a schedule regarding the gradual reduction to its coal inventory.

### D. Additional Recommendations

PSNH agrees to adopt the recommendations contained in Mr. Cannata's testimony as described above in Section II. A. In addition, PSNH agrees to establish a protocol for transmission and distribution workers performing activities in substations containing PSNH generating units.

### E. Miscellaneous

The Parties and Staff acknowledge that the provisions of this Stipulation and Settlement Agreement are interdependent and non-severable and shall not be binding upon, nor deemed to represent the positions of, the Parties and Staff if they are not approved in full without modification or condition by the Commission. The Parties and Staff further acknowledge that this Stipulation and Settlement Agreement is the product of settlement negotiations, that the content of such negotiations shall be deemed to be privileged and that all offers of settlement shall be without prejudice to the positions of the Parties and Staff. The Commission's acceptance of this Stipulation and Settlement shall not constitute precedent or admission by any party in any future proceeding. The Parties and Staff agree to support this Stipulation and Settlement Agreement before the Commission and to take all reasonable actions to implement the terms described herein.

IN WITNESS WHEREOF, the Parties and Staff have caused this settlement agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By: \_\_\_\_\_  
Gerald M. Eaton, Esq.  
Senior Counsel

Date: \_\_\_\_\_

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

By:  \_\_\_\_\_  
Suzanne G. Amidon, Esq.  
Staff Attorney

Date: 11/20/2009

OFFICE OF CONSUMER ADVOCATE

By:  \_\_\_\_\_  
Meredith A. Hatfield, Esq.  
Consumer Advocate

Date: 11/20/09

IN WITNESS WHEREOF, the Parties and Staff have caused this settlement agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By: Gerald M. Eaton  
Gerald M. Eaton, Esq.  
Senior Counsel

Date: Nov. 20 2009

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

By: \_\_\_\_\_  
Suzanne G. Amidon, Esq.  
Staff Attorney

Date: \_\_\_\_\_

OFFICE OF CONSUMER ADVOCATE

By: \_\_\_\_\_  
Meredith A. Hatfield, Esq.  
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