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STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 27, 2012
AT (OFFICE): NHPUC

FROM:  Steven E. Mullen, Assistant Director – Electric Division

SUBJECT: DE 11-184 - Joint Petition for Approval of Power Purchase Agreements and Settlement Agreement - **Non-Advocate Staff's Initial Wood Price Verification Report for Power Purchase Agreement between Public Service Company of New Hampshire and Springfield Power, LLC**

TO: Chairman Amy Ignatius
Commissioner Michael Harrington
Commissioner Robert Scott
Executive Director Debra Howland

Consistent with the requirements of Commission Order No. 25,305 in Docket No. DE 11-184 (December 20, 2011), this memorandum serves as Non-Advocate Staff's verification of the initial wood price for the power purchase agreement (PPA) between Public Service Company of New Hampshire (PSNH) and Springfield Power, LLC (Springfield).

Background

In DE 11-184 the Commission considered, and approved, PPAs between PSNH and five wood-fired independent power producers (IPPs). PSNH commenced purchasing energy pursuant to four of those agreements earlier in 2012 while purchases under the agreement with Springfield did not commence until mid-2012. The IPPs are paid a stated energy price that is accompanied by a fuel price adjustment payment determined on a quarterly basis and calculated based on variations in delivered wood fuel prices—up or down—from a stated contract term called the “Initial Wood Price.” Pursuant to the terms of each PPA, the Initial Wood Price was “subject to verification, review and approval by the NH PUC.” In testimony I filed in DE 11-184¹, I described the verification process and reported on the verification of the Initial Wood Price for the four other PPAs. That verification process involved reviewing actual delivered wood fuel prices for the six or twelve months prior to the inception of the PPAs. Given that the Springfield PPA had a later start date, no verification of the initial Wood Price was performed at that time but it

¹ Exhibit #6 at 10-11.

remained a requirement to be performed in the future. On that point, the Commission stated,

As for the PPA involving Springfield Power, LLC, since the term does not commence until the later of Commission approval or June 1, 2012, Non-Advocate Staff indicates that a similar verification process would take place at a later time to establish the initial wood price within the range set forth in that PPA. *Id.* We conclude that such a procedure is appropriate and we will direct Joint Petitioners to notify the Commission of the initial wood price in accordance with the PPA. Non-Advocate Staff will then conduct a review of the wood price and file a report with the Commission regarding the results of the review and verification of the initial wood price. Staff Advocates and OCA will be invited to participate in that review. The initial wood price applicable to the Springfield Power, LLC PPA will be subject to our approval.²

Verification Process

On June 27, 2012, I reviewed delivered wood price information for the Springfield plant at the law office of Olson & Gould, PC. I was accompanied by Stephen Eckberg representing the Office of the Consumer Advocate. This visit was followed by another meeting at Olson & Gould, which we both attended, on July 12, 2012 to review additional information provided in response to certain questions arising from our initial visit.

Historic delivered wood price information was reviewed for the six-month period December 1, 2011 through May 31, 2012. During that period of time, Springfield used three different types of wood fuel: whole tree chips, pulp wood (whole logs requiring on-site chipping) and grindings from a nearby sawmill operation, with the vast majority of the fuel supplied as whole tree chips. The supporting information provided included a list of shipments by vendor, with further details including the date, ticket number, tonnage, material cost and amount paid for each shipment. For each of the fuel types, certain shipments were selected for further review of supporting documentation which included Springfield's accounts payable information, information regarding account adjustments, a printout of the check issued to the vendor and a copy of the check endorsed by the vendor. The information was well organized and I did not have any concerns that information supplied for the wood fuel deliveries was inadequate, nor am I aware of any such concerns by Mr. Eckberg.

As stated, one fuel source was pulp wood. The pulp wood was delivered as whole logs which required on-site chipping in order to be burned as fuel. The price of the delivered logs was reviewed as described above. With respect to the chipping costs, we were provided with a spreadsheet that included information on the cost of diesel fuel used in the chipping operation, labor costs, depreciation of certain equipment, repair and maintenance costs, etc. Some of those costs were calculated using estimates. Using

² Order No. 25,305 (December 20, 2011) at 36.

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those costs, Springfield determined a cost per ton for chipping that could be added to the cost per ton of pulp wood.

Initial Wood Price

Along with the supporting documentation for the historic wood fuel deliveries, Springfield provided its calculation of the Initial Wood Price. The specific terms of the PPA provide that the

‘Initial Wood Price’ means a price equal to the average delivered wood price to the Facility over the six-month period preceding June 1, 2012, but not more than [REDACTED] per ton nor less than [REDACTED] per ton (subject to verification, review and approval by the NH PUC).

Springfield calculated the Initial Wood Price two ways, both with and without including the chipping costs as part of the cost of pulp wood. Given the words “average delivered wood price to the facility” along with the fact that the chipping costs are within the control of Springfield and include the use of estimates³, Non-Advocate Staff recommends that the Initial Wood Price of [REDACTED] per ton calculated without the inclusion of chipping costs be approved by the Commission with respect to the Springfield PPA. That price is within the range of Initial Wood Prices set forth in the PPA and previously approved by the Commission. In addition, the calculation of that Initial Wood Price was verified through review of documentation provided for the relevant six-month period.

In terms of procedure, and given that the Commission has previously approved the Springfield PPA subject to verification of the Initial Wood Price, Non-advocate Staff recommends the Commission issue a supplemental order approving the Initial Wood Price of [REDACTED] per ton for the Springfield PPA.

Please let me know if you have any questions or would like to discuss this issue further.

cc: Edward Damon
Service List

³ Avoiding the use of estimates in establishing the Initial Wood Price also allows for a simpler process with respect to future audit and verification of delivered wood prices.