

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

DIRECT TESTIMONY OF STEPHEN R. HALL

**Alternate Energy Service Rate
September 23, 2011**

Docket No. DE 11-XXX

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

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

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

6 A. Yes, I have testified on numerous occasions before the Commission.

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

8 A. The purpose of my testimony is to provide PSNH's proposal for complying with the
9 Commission's Order No. 25,256 issued July 26, 2011, in Docket No. DE 10-160. In that
10 order, the Commission required PSNH to file alternative rates and tariffs for customers
11 who return to PSNH's Default Energy Service from competitive supply.

12 **Q. Please describe PSNH's proposal.**

13 A. PSNH is proposing a new energy service rate for customers who are returning to PSNH
14 energy service after taking service from a competitive supplier.¹ The new rate, Alternate

¹ As used in this testimony, any reference to taking service from a "competitive supplier" means that the customer is either taking Supplier Service or Self Supply service as defined in PSNH's tariff.

1 Default Energy Service Rate ADE, is contained in the illustrative tariff page that is
2 included as Attachment SRH-1. The pricing under Rate ADE will be based on PSNH's
3 marginal costs to serve these returning customers plus an adder. I will describe the
4 pricing in more detail later.

5 The purpose of Rate ADE is to provide an option for customers to return to PSNH for
6 energy service at a price in excess of marginal cost while providing a contribution to
7 fixed costs that will benefit all other customers.

8 Rate ADE will be applicable to customers who take delivery service from PSNH under
9 Primary General Service Rate GV, Large General Service Rate LG, or Backup Service
10 Rate B (the rate classes for PSNH's largest customers) who return to PSNH energy
11 service after taking service from one or more competitive suppliers for at least twelve
12 consecutive months. Once a customer terminates service from a competitive supplier
13 following at least twelve consecutive months of such service, energy service taken from
14 PSNH during any of the next twenty-four months must be taken under the Rate ADE.

15 Default Energy Service Rate DE (PSNH's standard energy service rate) will no longer be
16 available to such customers during this twenty-four month period.

17 **Q. Could you provide an illustrative example of how the Availability section of Rate**
18 **ADE will be applied?**

19 A. Yes. As an example, assume that a customer has been taking service from a competitive
20 supplier for at least twelve consecutive months and decides to return to PSNH for energy
21 service. The commencement of service under Rate ADE starts a twenty-four month
22 "clock" during which the customer may take service either under Rate ADE or from a
23 competitive supplier, with no restrictions for transferring from PSNH to the competitive
24 market, or vice versa.

1 During this twenty-four month time period, if the customer subsequently switches to a
2 competitive supplier for at least twelve consecutive months, the twenty-four month
3 “clock” is reset and begins counting anew when and if the customer returns to PSNH for
4 energy service. If the customer switches to a competitive supplier but returns to Rate
5 ADE within twelve months, the “clock” continues to run. Stated differently, the
6 customer can return to a competitive supplier for up to eleven consecutive months and
7 then return to service from PSNH without resetting the twenty-four month “clock”. Once
8 the twenty-four month period expires, the customer will thereafter be rendered service
9 under Rate DE (as long as the customer takes energy service from PSNH).

10 Because Rate DE will not be available to the customer during the twenty-four months
11 when the “clock” is running, PSNH is also proposing a change to the “Availability”
12 section of Rate DE to clarify that it is not available to customers who are required to take
13 service under Rate ADE. An illustrative tariff page showing that proposed language
14 change is contained in Attachment SRH-2.

15 **Q. Why is the availability of Rate ADE limited to customers who have taken Supplier**
16 **Service or Self-Supply Service for at least twelve consecutive months?**

17 A. Prices under Rate ADE may be less than or greater than under Rate DE, depending upon
18 PSNH’s then-current costs. Since PSNH’s marginal cost of providing energy service is
19 currently lower than its average cost, pricing under Rate ADE will, at the outset, be
20 below the pricing under PSNH’s Rate DE. Therefore, the limitation on availability will
21 ensure that whenever Rate ADE is less than Rate DE, customers who are currently taking
22 service under Rate DE don’t terminate such service for a brief period for the sole purpose
23 of qualifying for service under Rate ADE. Absent the provision limiting the availability,
24 customers could switch from Rate DE to the competitive market and return for a period

1 as short as one month for the sole purpose of qualifying for Rate ADE and receiving a
2 lower price, thereby resulting in revenue loss to the detriment of all remaining Rate DE
3 customers.

4 **Q. Is there anything that would prohibit a customer from leaving Rate DE for a full**
5 **year in order to qualify for Rate ADE?**

6 A. No, there isn't. However, we believe that it is unlikely that a customer would make a
7 decision to leave for a full year for the sole purpose of qualifying for Rate ADE,
8 particularly since it's not certain what the pricing of Rate ADE would be one year later.
9 The limitation on availability will prevent "gaming" by customers who would otherwise
10 frequently switch between service from a competitive supplier and energy service from
11 PSNH.

12 **Q. Why are customers who have taken Supplier Service or Self-Supply Service for a**
13 **period of at least twelve months *required* to take service under Rate ADE.**

14 A. As I stated earlier, Rate ADE will initially be priced below Rate DE, since PSNH's
15 marginal cost of providing energy service is currently lower than its average cost.
16 However, that may not always be the case. In the event that market prices increase in the
17 future, PSNH's marginal cost of providing energy service could be in excess of its
18 average cost, as was the case for many years following restructuring. If that situation
19 again materializes, Rate ADE will be priced *above* Rate DE. Customers who have been
20 taking energy service from the competitive market would then have an incentive to return
21 to Rate DE at the very time that increased load under Rate DE would result in higher
22 rates for all other customers. To avoid this situation, any customer who returns to energy

1 service from PSNH after at least twelve consecutive months of service from a
2 competitive supplier must take such service under Rate ADE rather than under Rate DE.

3 **Q. Please explain your rationale for the twenty-four month term of service.**

4 A. The term of service under Rate ADE is set at twenty-four months to ensure that
5 customers do not receive an extended period of discounted rates when marginal costs are
6 below PSNH's average energy costs, and to avoid having customers paying a higher rate
7 for an extended period when marginal costs exceed PSNH's average costs.

8 When marginal costs are below the price under Rate DE, returning customers will want
9 to take service under Rate ADE for as long as possible, since Rate ADE will most likely
10 be priced below Rate DE. In that situation, the contribution to fixed costs provided by
11 the adder benefits all other customers, but the lower pricing should end at some point
12 (and only become available again if the customer re-qualifies for service under Rate ADE
13 by taking service from a competitive supplier for at least twelve consecutive months).

14 Conversely, when marginal costs exceed the price under Rate DE, customers will want to
15 return to service under Rate DE rather than under Rate ADE. As discussed above, in this
16 situation, if a customer returns to service under Rate DE, it raises the price for all other
17 customers. Therefore, PSNH would desire a longer term of service under Rate ADE to
18 extend the length of time that the benefits are provided to all other customers.

19 In order to balance these competing objectives, and in view of the uncertainty of future
20 market prices, PSNH is proposing a twenty-four month term of service under Rate ADE.

21 **Q. How will you calculate the price for service under Rate ADE?**

22 A. Pricing under Rate ADE will be determined annually, in the same time frame that
23 PSNH's Rate DE is determined. Prices will be effective January 1 but will be subject to

1 change on July 1 to the extent that forward market prices for the second half of the year
2 are materially different than they were at the time that the rate was initially calculated.
3 This procedure for changing Rate ADE is the same procedure utilized for changes under
4 Rate DE. The price will be a forecast of the marginal cost to provide full requirements
5 service to the New Hampshire load zone, plus an adder.

6 The forecast of the marginal cost will include forward energy market prices, forward
7 capacity market prices, forecasted ancillary service costs, forecasted ISO-NE market
8 administration costs, and forecasted renewable portfolio standard compliance costs, all of
9 which will be determined in a manner consistent with that utilized in filings for Rate DE.
10 In practice, the marginal cost to provide full requirements service to the New Hampshire
11 load zone will be calculated as the change in cost to serve energy service load divided by
12 the change in energy service sales resulting from the removal of migration from the
13 energy service rate forecast.

14 The adder will be equal to the non-operating costs of the wet flue gas desulfurization
15 system (scrubber) divided by forecasted Energy Service sales under Rate DE. Non-
16 operating costs include depreciation, return on rate base including income taxes and any
17 incremental property taxes.

18 **Q. Why will the adder be set equal to the non-operating cost of the scrubber?**

19 A. The adder will be calculated based on the non-operating cost of the scrubber in order to
20 comply with RSA 125-O:18, which requires that all prudent costs of complying with
21 RSA 125-O:13 must be recovered through the utility's default service charge. To comply
22 with that law, PSNH is proposing to calculate the adder based on the non-operating cost
23 of the scrubber and therefore recover those costs through Rate ADE as well as Rate DE.

1 **Q. Why will the pricing under Rate ADE be premised on PSNH's marginal costs?**

2 A. Pricing under Rate ADE will be based on PSNH's marginal costs for two reasons: i. to
3 provide customers with the proper price signal; and, ii. to comply with Order No.
4 25,256's finding that "it is reasonable that PSNH be allowed to charge customers who
5 return to its default service an alternative default service rate reflecting the marginal cost
6 to serve that load." Customers who have opted to take service from a competitive
7 supplier have demonstrated high price sensitivity. By pricing closer to marginal cost,
8 PSNH will be sending those customers an appropriate price signal: that the cost of
9 serving those customers is currently less than PSNH's average embedded cost. Such
10 customers will also receive an appropriate price signal if marginal costs increase above
11 PSNH's average embedded cost, because pricing under Rate ADE would then be above
12 the price under Rate DE.

13 **Q. Is marginal cost pricing for energy service a concept that the Commission has**
14 **previously adopted?**

15 A. Yes, it is. In Order No. 24,240 dated November 21, 2003 in Docket No. DE 03-193, the
16 Commission approved PSNH's proposal for its Retail Energy Service program. That
17 proposal was developed as a collaborative effort with suppliers and was intended to
18 provide a catalyst for customers to select a competitive supplier. At the time, PSNH's
19 marginal costs were above its average embedded cost of providing energy service, so a
20 reduction in load would have resulted in lower average costs for PSNH's energy service
21 customers. Under the Retail Energy Service program, PSNH offered a credit based on
22 the difference between PSNH's average Energy Service rate and its marginal cost of
23 providing the service. In Order No. 24,252 dated December 19, 2003 in Docket No. DE
24 03-175, the Commission noted that it was the position of intervenor Freedom Partners,

1 LLC d/b/a Freedom Energy that “the PSNH Retail Energy Services program approved by
2 the Commission in Order No. 24,240 (Nov. 21, 2003) [was], *designed to stimulate*
3 *migration of large customers to competitive suppliers by providing a credit that varies*
4 *with PSNH's expected marginal Transition Service cost*”. Order No. 24,252 at 18.

5 **Q. Do you have a proposed price for Rate ADE effective January 1, 2012?**

6 A. Not at this time. As discussed above, the adder to forward market pricing will be equal to
7 the non-operating costs of the scrubber. Therefore, Rate ADE cannot take effect until the
8 scrubber is providing service to customers. Since that has not yet occurred, PSNH has
9 not calculated a proposed rate for Rate ADE. As in the case of Rate DE, PSNH intends
10 to update this proposal just prior to the hearing to be held in this docket. At that time,
11 more information should be available regarding the in-service date of the scrubber² as
12 well as the cost of the scrubber, and PSNH will then be able to determine a proposed rate
13 level and effective date for Rate ADE.

14 **Q. After the price is determined, how will the costs incurred be reconciled with the**
15 **revenue received under Rate ADE?**

16 A. The reconciliation will be performed as part of the standard Energy Service
17 reconciliation. The cost associated with serving the load will automatically be included
18 in standard Energy Service costs. The revenue received by PSNH from customers served
19 under Rate ADE will be added to the standard Energy Service revenue in the
20 reconciliation of revenue and expense. Any over- or under-recovery associated with load

² As of the filing date of this testimony, operational testing of the scrubber was anticipated to commence within a few days. However, the in-service date of the scrubber was not yet determined.

1 under Rate ADE will flow through to all customers served under PSNH's standard
2 Energy Service Rate DE.

3 **Q. Please summarize your proposal.**

4 A. PSNH requests that the Commission approve its proposed Rate ADE. As discussed in
5 the Commission's Order No. 25,256, Rate ADE provides appropriate price signals (since
6 it's based on marginal costs) and discourages misuse of default service as a result of the
7 conditions on its availability. It also addresses situations where the default ES rate is less
8 than market prices as well as when the default ES rate is greater than market prices.
9 Approval of Rate ADE will result in increased contribution to fixed costs at a price in
10 excess of marginal cost, thereby providing benefits to all other customers. PSNH urges
11 the Commission to approve its proposal.

12 **Q. Does this complete your testimony?**

13 A. Yes, it does.