

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

PREPARED TESTIMONY OF RICHARD H. BRANCH

Revision to Renewable Default Energy Service Rate

Docket No. DE 11-255

June 1, 2012

1 **I. Introduction**

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

3 A. My name is Richard H. Branch. My business address is 780 N. Commercial Street, Manchester,
4 NH. I am an Analyst in the Business Planning and Customer Support Services Department for
5 Public Service of New Hampshire (PSNH).

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

7 A. Yes. A summary of my educational background and experience is contained in Attachment 1.

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

9 A. The purpose of my testimony is to provide a detailed overview of PSNH's request for a mid-term
10 adjustment to increase the current Renewable Default Energy Service Rate (RDES) to be
11 effective on July 1, 2012 or the earliest possible date based on the Commission's availability to
12 consider this matter. The currently-effective RDES rate was approved by Commission Order
13 25,324.

1 **II. PROGRAM DESCRIPTION**

2 **Q. Why does PSNH offer a Renewable Default Energy Service Rate?**

3 A. The New Hampshire legislature passed House Bill 395 (codified as RSA 374-F: 2), which
4 requires electric utilities to offer to its customers one or more renewable energy source options.
5 PSNH worked with the legislature on this measure and made a commitment to seek the
6 Commission's approval of an RDES option following the passage of the bill.

7 **Q. Please briefly describe PSNH's Renewable Default Energy Service Rate.**

8 A. Under PSNH's Renewable Default Energy Service Rate, PSNH's default energy service
9 customers are provided with the opportunity to support the development of new renewable
10 sources of generation in New England. PSNH purchases and retires, on the participating
11 customer's behalf, renewable energy certificates (RECs) from new renewable sources of
12 generation in New England that match either all or a portion of the customers' actual energy use,
13 depending on the option selected. Customers taking service under the Renewable Default Energy
14 Service Rate are billed at the Default Energy Service Rate plus an additional charge (in cents per
15 kilowatt-hour) based on the renewable option chosen.

16 **Q. What type or class of RECs does PSNH purchase on behalf of its customers taking service**
17 **under the RDES?**

18 A. As allowed under RSA 374-F:3, PSNH purchases RECs from facilities that are certified as Class I
19 or Class II generation resources under the New Hampshire Electric Renewable Portfolio Standard
20 (RSA 362-F:4-I), or are capable of earning certification under RSA 362-F:4-I. PSNH only
21 purchases RECs associated with renewable generation resources, as defined above, that are
22 physically located within the New England region.

1 **III. CUSTOMERS**

2 **Q. How many customers are currently enrolled in the RDES program?**

3 A. As of April 30, 2012, there are 160 customers enrolled in the rate. Forty (40) customers are
4 enrolled at the 25% option, 40 are enrolled at the 50% option, and 80 are enrolled at the 100%
5 option.

6 **Q. How has enrollment changed since the start of the program in 2010?**

7 A. There were 91 customers enrolled in the rate as of December 31, 2010. There were 166 customer
8 enrolled as of December 31, 2011.

9 **IV. RECONCILIATION OF 2010 and 2011 PROGRAM REVENUES**

10 **Q. What is PSNH's obligation, in terms of MWh, for the RDES Rate for 2011?**

11 A. PSNH's obligation under the RDES is 711 MWh. Using the ratio of 98% Class I and 2% Class II
12 RECs PSNH will need to obtain 697 Class I RECs and 14 Class II RECs to satisfy its current
13 obligation.

14 **Q. Has PSNH purchased any RECs to meet its 2011 obligation to date?**

15 A. Yes, PSNH purchased 397 Class I RECs in August of 2011 to use towards 2011 compliance.
16 These RECs were purchased for \$29/REC. In May 2012, PSNH purchased 14 Class II RECs for
17 \$120/REC. PSNH has been unable to secure the remaining 300 Class I RECs needed to fully
18 cover the 2011 obligation.

19 **Q. What efforts have been made to purchase these remaining 300 Class I RECs?**

20 A. The Company has been in contact with brokers throughout the second half of 2011 and early
21 2012, but has been unable to find a willing seller. Further, PSNH issued a Request For Proposal
22 on May 10, 2012 combining the obligation needs for the Renewable Default Energy Service and

1 PSNH's Default Energy Service obligations under the Renewable Portfolio Standards (RPS) law.
2 The RFP did not yield any offers for Class I RECs to PSNH for either the Renewable Default
3 Energy Service Rate or for Default Energy Service Rate RPS obligations.

4 **Q. How will PSNH cover this remaining obligation of 300 Class I RECs?**

5 A. PSNH has surplus Class I RECs that were purchased in 2009 for Default Energy Service RPS
6 use, but cannot be used towards 2011 RPS obligations by any entity other than PSNH due to PUC
7 Chapter 2503.4(e) rules. These 2009 RECs are associated with the Lempster Wind project and
8 the PSNH-owned Smith Hydro facility. Since these RECs cannot be used by any other entity
9 other than PSNH, and they would be eliminated unused from inventory when the current
10 compliance period ends on June 15, 2012, the Company is proposing using 209 of these RECs to
11 cover a portion of the obligation need, leaving PSNH 91 RECs short of its requirement for RDES.
12 PSNH would make a payment into the State's Renewable Energy Fund at the 2011 ACP value of
13 \$62.13/REC to satisfy the shortfall.

14 **Q. Why is PSNH unable to offset the full obligation of 300 Class I RECs using these excess**
15 **RECs?**

16 A. According to PUC 2503.4(e) only 30% of an obligation need can be fulfilled with banked RECs.
17 The Renewable Default Energy Service Rate's total obligation is 697 Class I RECs. Thirty
18 percent of 697 is 209. PUC Chapter 2500 is the code of administrative rules that apply to the
19 Electric Renewable Portfolio Standard. While the rules do not explicitly apply to the RDES, the
20 Company is operating on the assumption that they should in this case. In the event that the
21 Commission determines that they did not, the Company could satisfy the entire outstanding
22 obligation with these remaining RECs.

1 **Q. Is PSNH authorized to use these RECs under RSA 374-F:3.V(f)?**

2 A. Yes. The New Hampshire legislature provided specific guidance under the Renewable Default
3 Energy Service legislation (RSA 374-F:3,V(f)(5)) which states: “A utility that is required by
4 statute to provide default service from its generation assets should use any of its owned
5 generation assets that are powered by renewable energy for the provision of standard default
6 service, rather than for the provision of a renewable energy source component.” Furthermore in
7 DE 09-186, PSNH witness Richard Labrecque in his written testimony concluded, “However, if
8 and to the extent PSNH’s ownership of renewable generation assets generates sufficient RECs to
9 fully meet the needs of PSNH’s RPS obligation under RSA 362-F, PSNH may elect to utilize any
10 surplus RECs to satisfy the needs of this renewable energy service program. Any such use would
11 be fully disclosed in either the rate setting or cost reconciliation dockets and would only be
12 considered in cases that optimized the customer value of such surplus RECs.” Given that these
13 RECs are in excess of what is needed to satisfy RPS obligations, and no sellers were available to
14 for Class I RECs, using these RECs for RDES compliance satisfies the intent of the statute and
15 provides an optimal value to RDES customers as compared to paying the Alternative Compliance
16 Payment.

17 **Q. What value has been assigned to these RECs?**

18 A. PSNH has assigned a value of \$30.71/REC. This value is a proxy for the market sales price that
19 PSNH may have obtained had these surplus RECs been sold prior to the end of the 2009
20 compliance year trading period (June 30, 2010).

21 **Q. What is the justification for this valuation?**

22 A. In the report titled “2011 Renewable Energy Portfolio Standard Review, Report of the New
23 Hampshire Public Utilities Commission To the New Hampshire General Court” dated November
24 1, 2011, Table 4 (see page 3) identifies the average cost of purchased 2009 RECs for Class I as

1 \$29.59 for Default Service Providers, and \$31.82 for Competitive Electricity Providers. The
2 proposed value is based on an average of those two values.

3 **Q. Has PSNH collected enough revenue from the Renewable Default Energy Service Rate to**
4 **meet the 2011 RDES obligation?**

5 A. No. Attachment RHB-2 shows the details on the calculation of the under collection. To fulfill
6 2011 RDES compliance, PSNH will spend \$25,265.22. During 2011, PSNH collected
7 \$18,165.41 in RDES revenues (including accrued interest). This creates an under recovery of
8 \$7,099.81. When added to the over collection of \$3,823.22 from the 2010 compliance period, the
9 net under collection is \$3,276.59.

10 **Q. What is PSNH's proposal for recovering this under collection through rates?**

11 A. PSNH is proposing that this under collection be recovered through the RDES rate, spread over 12
12 months, starting July 1, 2012.

13 **Q. What is the rate impact of this proposal?**

14 A. The rate impact of this proposal on the RDES rate for customers choosing the RDES rate is 0.398
15 cents/kWh.

16 **Q. What is the basis for the 822,593 kWh used in the calculation of the under collection?**

17 A. It is based on the history of customer offset kilowatt-hours over the life of the program using a
18 monthly offset/customer in kWh terms. We further assumed a customer base of 150, which is
19 lower than the actual RDES customer base at the time of this submission. The forecasted 822,593
20 kWh is simply the product of the assumed customer base and the monthly offset.

1 **V. MARKET ADJUSTMENT TO RDES RATE**

2 **Q. What is the current RDES rate?**

3 A. The current rate for the 100% option is 3.579 cents/kwh.

4 **Q. What is PSNH proposing for an RDES rate for the second half of 2012??**

5 A. PSNH is proposing rates of 6.184 cents/kwh for customers choosing the 100% option, 3.092
6 cents/kwh for those choosing the 50% option, and 1.546 cents/kwh for those choosing the 25%
7 option. These rates are premised on PSNH's proposal to recover the \$3,277 under collection over
8 a 12-month period. Excluding the proposed under collection reconciliation, the proposed RDES
9 rate for the 100% option would be 5.786 cents/kWh.

10 **Q. What REC assumptions contribute to the updated RDES rate?**

11 A. PSNH is forecasting that Class I RECs will cost \$57/MWh and Class II RECs will cost
12 \$100/MWh. Please see attachment RHB-3 for the calculation of the RDES rate. These
13 assumptions are consistent with the Company's proposed Default Energy Service Rate for effect
14 on July 1, 2012 and are based on an assessment of current market conditions. The current rate of
15 3.579 cents/kWh assumed a Class I price of \$35.50 and a Class II price of \$50.

16 **Q. In past proceedings, the Company has used broker sheets to calculate the RDES. Why does
17 the Company propose a different method in this rate update?**

18 A. Current broker sheets report the value of 2012 Class I RECs at \$44-\$46/MWh and Class II RECs
19 at \$40-\$50/MWh. These prices do not reflect current market conditions. As described above, the
20 Company was unable to secure any willing sellers for 2011 or 2012 obligation purchases and
21 therefore is concerned that the current market for RECs is higher than what brokers may indicate.
22 As such, we are proposing a more conservative assumption on REC prices. These assumptions

1 provide more risk protection for RDES customers and help to mitigate any large under recovery
2 should the REC market continue to escalate.

3 **Q. Are there any other costs included in the market update to the RDES rate?**

4 A. No. PSNH only included the forecasted incremental cost of the RECs to be purchased to meet the
5 requirements of customers participating in the RDES program in the calculation of the RDES
6 Rate. There are no marketing or administrative costs included.

7 **Q. Please estimate the monthly bill impact of the Renewable Default Energy Service options
8 for a residential customer using 500 kilowatt-hours per month and for a small business
9 customer using 10,000 kilowatt-hours per month for the 25%, 50%, and 100% options.**

10 A. The monthly bill impact of the renewable default energy service options for a residential
11 customer using 500 kilowatt-hours per month and for a small business customer using 10,000
12 kilowatt-hours per month are summarized in Attachment RHB-4. As shown, the monthly bill
13 impact for a residential customer using 500 kilowatt-hours per month ranges from \$30.92 for the
14 100% option to \$7.73 for customers choosing the 25% option, while the monthly bill impact for a
15 small business customer using the 10,000 kilowatt-hours per month ranges from \$618.40 for
16 customers choosing the 100% option to \$154.60 for customers choosing the 25% option.

17 **Q. This proposed rate is a large increase over the current rate. Do you anticipate that this will
18 have any impact on program participation?**

19 A. It is unknown the exact effect of this price increase. In March 2012, the price of the RDES rose
20 from 1.972 cents/kwh to 3.579 cents/kwh and the program lost a net of six customers. The
21 Company believes that it is important that the rate reflect the current state of REC markets to send
22 customers an appropriate price signal. The proposed rate does just that.

1 **Q. Has PSNH included proposed tariff language for the Renewable Default Energy Service**
2 **Rate options in this filing?**

3 A. Yes. PSNH's proposed tariff language for the RDES option is contained in Attachment 5. PSNH
4 plans to update the language relating to the RDES option to PSNH's existing Default Energy
5 Service Rate DE rate schedule. For that reason, Attachment RHB-5 contains a black-lined
6 version of the Default Energy Service Rate DE rate schedule which denotes the proposed tariff
7 language relating to the RDES options.

8 **Q. What is the proposed effective date for the proposed update to the Renewable Default**
9 **Energy Service rate?**

10 A. The proposed effective date for the Renewable Default Energy Service rate is July 1, 2012 or the
11 earliest date the Commission can rule on this matter.

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

13 A. Yes, it does.