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July 23, 2007

Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DE 06-125; Public Service Company of New Hampshire

Dear Ms. Howland:

I am writing on behalf of Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (referred to below as "the Constellation companies") concerning the Commission's recent Order No. 24,768 (referred to below as "the energy service rate order"). Constellation NewEnergy, which supplies electricity to customers at retail, is an intervenor in Docket DE 06-125. Constellation Energy Commodities Group, which supplies electricity at wholesale, did not directly intervene in this docket, although it has been an intervenor in prior energy service proceedings involving Public Service Company of New Hampshire ("PSNH") and is extensively involved in policy matters related to the electric industry in New Hampshire and throughout the region.

In its energy service rate order issued on June 29, the Commission urged the parties to complete for consideration by the Commission a proposal under which competitive suppliers would provide information regarding the load they have under contract for the upcoming year. Although the Constellation companies had previously indicated their support for such a concept, further consideration of how such a proposal may work as well as their experience in New Hampshire during the past year have given rise to serious concerns about proceeding with such a proposal. The purpose of this letter is to explain those concerns, and request that the Commission ensure that other suppliers have an appropriate opportunity to comment on any proposal by PSNH before it is acted on by the Commission. It is Constellation's understanding that the Commission does not intend to adopt a specific proposal until all suppliers have had an opportunity to comment, but because Constellation had previously indicated that it believed it could support a new reporting requirement, it felt it appropriate to express its concerns as soon as possible rather than waiting until the Commission staff and PSNH have spent additional time on it.



The concept of asking competitive suppliers to report their load under contract for the coming year was first raised by PSNH during the first phase of this docket as a means of assisting PSNH in forecasting its retail load. Specifically PSNH believed that such data would enable it to better estimate the amount of power it would need to procure in the wholesale market to serve its retail load. As the Commission is aware, PSNH procures approximately 30% of its power requirements in the wholesale market as a supplement to the energy generated by its own assets. While the Constellation companies have a direct interest in ensuring that PSNH's energy service rate reflects as closely as possible the full and true cost of providing that service, they have also made clear that there are real public benefits that could be obtained if PSNH obtained the power it requires for its energy service load from the wholesale market. The Constellation companies have put forth a number of proposals before the Commission and in the New Hampshire legislature that have been aimed at achieving those ends, but PSNH has consistently argued against them. PSNH's primary rationale opposing these proposals has been its claim that it can procure the energy needed by its customers at a lower cost than can competitive suppliers. In particular, with regard to the portion of its load purchased on the wholesale market, PSNH has asserted that it can obtain the needed power more cost-effectively by putting together its own portfolio of firm contracts, spot purchases and hedges than by putting its requirements out to bid in the wholesale market and entering into a load following requirements or partial requirements contract.

The Constellation companies are extremely concerned that a reporting requirement that provides PSNH with suppliers' highly confidential load information, even if such information were provided on an aggregated basis, would give PSNH an unfair competitive advantage. In particular, at least with regard to the portion of its load that it procures from the competitive wholesale market, PSNH should be required to seek bids to serve that load, so the Commission has a point of comparison to PSNH's cost of providing the same service. The Constellation companies are confident that an RFP approach, similar to that followed by National Grid and Unitil Energy Services, to serve PSNH's requirements that its own assets do not satisfy would benefit PSNH's customers.

Because PSNH manages its own power procurement needs for the 30% of its requirements that it obtains from the wholesale market, it effectively operates in direct competition with wholesale suppliers such as Constellation Energy Commodities Group, who provide load following service to utilities throughout the country. For such suppliers, projecting customer migration is one of the risk management functions that they conduct on a regular basis, something which they do through sophisticated load forecasting methods and the use of skilled, experienced portfolio managers. If PSNH were to be given access to retail suppliers' load forecasts—information that is not equally available to competitive suppliers—it would have a significant unfair informational advantage in serving that load. Such an approach would do real harm to the competitive market in New Hampshire. In addition to the obvious harm to the wholesale market, the more PSNH enters into fixed commitments to meet its customers' power needs, the more it will be motivated to seek to retain its retail load in order to ensure that it can recover the costs associated with those commitments. As the Commission is aware, PSNH's energy service customers bear essentially all of the risk associated with PSNH's power supply

decisions, whereas competitive suppliers bear that risk when they contract with PSNH in a wholesale transaction or with PSNH's customers in a retail transaction.

The Constellation companies remain interested in working to identify ways to improve PSNH's ability to forecast the costs on which its energy service rate is based, thereby minimizing the potential for over and undercollections that are recovered or returned to customers in subsequent time periods. However, they believe that requiring PSNH to put out a request for proposals for a load following service, rather than allowing it to continue to create that service itself through a portfolio of wholesale contracts, spot purchases and hedges, will provide greater benefits to customers.

The Constellation companies recognize that the current docket does not provide a sufficient opportunity to address these issues, and therefore they request that the Commission include the issues (including consideration of any proposal for load forecast reporting by suppliers) in PSNH's next energy service rate proceeding. Although the Constellation companies do not believe that this request requires any immediate action by the Commission, to the extent the Commission deems it to be a motion for reconsideration, the Constellation companies request that the Commission take such action as the Commission deems appropriate to modify its Order No. 24,768.

The Constellation companies welcome the opportunity to continue to discuss these issues with the Commission staff, the Office of Consumer Advocate and PSNH, in anticipation of PSNH's next energy service rate proceeding. To the extent that the Constellation companies' concerns can be addressed, they remain willing to work on a proposal that enables PSNH to better forecast its energy service costs.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Camerino', written over a horizontal line.

Steven V. Camerino

cc: Service List