



CONSERVATION LAW FOUNDATION

October 23, 2009

Ms. Debra A. Howland, Executive Director & Secretary
N.H. Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

RE: Docket No. DE 08-103



Dear Director Howland:

I write regarding the Commission's on-going monitoring of Public Service New Hampshire's ("PSNH") construction of a wet flue gas desulphurization system ("Scrubber Project") at Merrimack Station, and to bring to the Commission's attention recent developments regarding PSNH's original estimates of the rate impacts associated with the Scrubber Project. In Order No. 24,979, Order Defining Scope of Proceeding, DE 09-033 (June 19, 2009) ("Scope Order") the Commission wrote:

In describing the scope of our review in this case as not encompassing matters related to the propriety of the scrubber installation, we note that we have an open docket, DE 08-103, in which we are monitoring PSNH's costs of construction of the scrubber technology at Merrimack Station. In that docket we will consider the prudence of PSNH's actions during the construction of the scrubber, including whether it avails itself of the variance procedure under RSA 125-0: 17 in the event of escalating costs.

Scope Order at 18.

In an article that appeared in the Concord Monitor on October 9, 2009, PSNH spokesperson Martin Murray reported that PSNH's original estimates of the impact of the Scrubber Project cost on ratepayers may change:

Starting in 2012, the company will add to the rates the cost of a \$457 million update to control mercury and sulfur dioxide emissions. The scrubber will be paid for by ratepayers over 15 years through the energy service charge.

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PSNH last year projected that impact to be an added 0.5 cents to the cost of 1 kilowatt hour in the first year and 0.31 cents per kilowatt hour averaged over 15 years. *Murray said that impact could change depending on how the customer base changes.*

PSNH Losing Business Customers to Rivals, Concord Monitor (Oct. 9, 2009), attached hereto as Exhibit 1 (emphasis supplied).

This is a significant development, and not surprising, particularly in light of the high customer migration and attrition PSNH has been experiencing. PSNH should provide a formal update to the Commission and to the parties in DE 08-103 of its September 2, 2008, filing that includes, based on current information and changed market conditions, PSNH's current projections of the rate impact of the Scrubber Project. Specifically, PSNH must update the analyses it provided in sections III and IV of that filing. See Docket No. DE 08-103, *PSNH Merrimack Station Scrubber Project Request for Information* (Sept. 2, 2008) ("September 2008 Filing") at §§ III (Effect of Clean Air Project on Energy Service Rates) and IV (Effect on Energy Service Rates if Merrimack Station Is Retired), pp. 14-15.

As the Commission is aware, in that filing, PSNH represented that "PSNH has assured the cost of energy produced by Merrimack Station will remain lower cost for customers than reasonable potential alternatives, even when the costs of [the scrubber] are included." September 2008 Filing at 14. PSNH then compared the cost of continued Merrimack Station operation, including the scrubber installation, against three scenarios, the least expensive of which was to retire Merrimack Station and replace its generation with market purchases. For purposes of that analysis, PSNH assumed that forward gas prices would remain strong, using \$11MMbtu as the first year price, and escalating that figure 2.5% per year. See *id.* at 15. Based on that assumption, PSNH calculated that that alternative would cost 15% more than continued Merrimack Station operations, with the scrubber installation—about .73 cents per kilowatt hour, as opposed to ½ cent per kilowatt hour for the first year after scrubber installation, and 1/3 cent per kilowatt hour for each year thereafter until fully depreciated. See *id.* at 14;16. PSNH's assumptions regarding the forward price of gas have turned out to be wrong—substantially so.

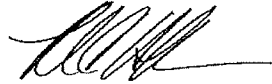
CLF requests that the Commission order PSNH to update the September 2 Filing to address these issues, and any others that the Commission believes are appropriate.

As of today, based on a review of the Commission's online docketbook, it appears that there have been no documents filed in the docket other than the initial filings and correspondence and those documents related to the Supreme Court appeal by Stonyfield Farm *et al.* To the extent additional filings have been made by PSNH, or any other documents generated by PSNH or the Commission in connection with DE 08-103, CLF requests copies be provided to CLF and all parties on the service list, and posted on the online docketbook. CLF also requests that the Commission provide notice of any

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meetings or discussions related to the docket to CLF and all parties on the service list, and that any such notice be posted on the online docketbook. These measures will ensure that interested parties and the public will have the opportunity to keep apprised of relevant Scrubber Project developments and the Commission's monitoring activities.

Sincerely,



Melissa A. Hoffer
VP Conservation Law Foundation
Director, NH Advocacy Center

Encl.

cc: DE 08-103 Service List

Exhibit 1

Article published on October 09, 2009

PSNH losing business customers to rivals

By Chelsea Conaboy
Monitor staff

October 09, 2009

More Public Service of New Hampshire customers than ever before are taking advantage of deregulation in New Hampshire and choosing to buy their power from the company's competitors.

Related articles:

Buying from the competition (10/9/2009)

The price of power on the grid in New Hampshire has dropped by nearly half in the past year. That's good for larger businesses and industrial customers that can make the move and save big money on their electricity bill. It's bad for residential and small-business customers who don't have a choice. Those customers could see higher energy rates next year.

In a filing last month, PSNH said 23 percent of the power it delivers to customers was being purchased from a competitive supplier. In those cases, PSNH delivers the power through its poles and wires but someone else supplies it.

That's 5 percent more than the company had anticipated and the highest-ever level of migration. A year ago, that percentage was close to zero, according to spokesman Martin Murray.

The remaining customers supplied directly by PSNH must take on more of the burden of generation costs.

"Customers that are unable to switch to a third-party supply, predominantly residential customers, are now shouldering additional fixed costs," Robert Bauman, the director of revenue regulation and load resources for PSNH's parent company, said in testimony to the commission.

The energy service charge, or the cost of the power, is now set at 9.03 cents per kilowatt hour. Bauman said that could increase to 9.31 cents per kilowatt hour next year, though PSNH won't formally propose a change until closer to a December hearing.

Murray said PSNH rates are higher than market rates because the company locked into multi-year contracts to buy power to meet the 40 percent of customer demand it historically hasn't been able to satisfy with its own generation. Those contracts extend through 2010, he said.

Now, overall demand has dropped by about 10 percent as customers go out of business, cut shifts, downsize or become more efficient. And market prices are much lower than expected.

In 2008, a run-up of energy prices reached record levels, said Tom Frantz, director of the Electric Division of the Public Utilities Commission.

"It's plummeted since," he said.

The average price of a megawatt hour on the grid in New Hampshire in July 2008 was \$106.67. In the same month this year it was \$32.78, and yesterday at 5:30 p.m. it clocked in at just over \$33.

Murray said the power-purchase contracts have prevented the company from taking advantage of the drop in prices.

"It changed so quickly that I don't think anyone can tell how long this same situation will continue," he said.

Consumer Advocate Meredith Hatfield said the other utilities in the state did not lock into contracts like PSNH.

For at least the last two and a half years, PSNH's rates were among the cheapest in the state. That's changed. In September, a residential customer using 500 kilowatt hours paid \$79.85 as a Unitil customer, \$64.09 with National Grid and \$85.68 with PSNH, according to state data.

When deregulation took effect in 2002, it gave PSNH's customers the legal right to buy their power from someone else. PSNH has historically had very low prices compared with competitive suppliers, and there's been little to no room for a residential market to develop.

Some competitive suppliers give business owners the option of tacking their home onto their business's power purchase plan. Every other residential customer has just one choice: PSNH. Of the 40 competitive suppliers or energy buyers listed on the commission's website, 34 contacted yesterday said they don't sell to residential customers in New Hampshire. The others didn't answer the call.

"The question is, do all customers have real choice?" Frantz said.

The answer, for now, is no.

Starting in 2012, the company will add to the rates the cost of a \$457 million update to control mercury and sulfur dioxide emissions. The scrubber will be paid for by ratepayers over 15 years through the energy service charge.

PSNH last year projected that impact to be an added 0.5 cents to the cost of 1 kilowatt hour in the first year and 0.31 cents per kilowatt hour averaged over 15 years. Murray said that impact could change depending on how the customer base changes.

If migration continues, the scrubber could cause more customers to shop for a better price, said Consumer Advocate Meredith Hatfield.

If not, she said, "even with the scrubber, (PSNH's power) could be cheaper. It's just a risk."

Hatfield said the fact that businesses are taking advantage of their choices is good.

"In a sense, migration is a success story," she said.

Murray said PSNH may consider asking the Public Utilities Commission to review whether there are some costs of operations now paid for through the energy service charge - such as the difference between the current cost of power and the contracted power - that could be moved to the delivery charge, which all PSNH customers pay, even if they buy their power elsewhere.

"This is a very unique time that we're in right now," he said. "We're looking to work with the commissioners and all the parties to just come up with an absolute fair way to share appropriate costs."

This article is: 13 days old.