

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

**In the matter of:
Public Service Company of New Hampshire
DE 10-160 Investigation into Effect of Customer Migration on Energy Service Rates**

**Phase I
Direct Pre-Filed Testimony**

Of

**Sandi M. Hennequin
Vice President**

New England Power Generators Association, Inc.

Dated: September 15, 2010

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

2 A. My name is Sandi Hennequin. My business address is 141 Tremont Street, Boston,
3 Massachusetts. I am the Vice President of the New England Power Generators Association, Inc.
4 (NEPGA). NEPGA is the largest trade association representing competitive electric generating
5 companies in New England. Our member companies represent nearly 27,000 megawatts (MW)
6 of generating capacity throughout New England, and over 2,600 MW of generation in New
7 Hampshire, or approximately two-thirds of the electric generating capacity in the state. Our
8 mission is to promote sound energy policies which will further economic development, jobs
9 and balanced environmental policy. Our major member companies in New Hampshire include:

- 10 1. Brookfield Renewable Power, the owner and operator of hydroelectric power facilities in
11 North America and Canada with 45 MW of installed capacity at eight generating stations in
12 New Hampshire.
- 13 2. Granite Ridge Energy, the owner and operator of the 790 MW natural gas-fired, combined
14 cycle generating facility in Londonderry.
- 15 3. NAEA Newington Energy, the owner and operator of the 525 MW natural gas-fired,
16 combined cycle generating facility in Newington.
- 17 4. NextEra Energy Resources, the owner and operator of Seabrook Station, a 1,218 MW
18 nuclear generation station in Seabrook.

19
20 **Q. Have you previously testified before the New Hampshire Utilities Commission**
21 **(Commission?)**

22 A. No, I have not testified before the Commission before.

23

24

1 **Q. What is the purpose of this docket?**

2 A. There were two drivers to opening this docket. First, the Commission issued an order in
3 December 2009 in Docket DE 09-180 in which it approved PSNH's default energy service rates
4 for 2010 but declined to accept TransCanada's recommendation that PSNH be required to
5 employ a Request for Proposals (RFP) for power purchases, stating:

6 "Nonetheless, we intend to explore the interplay of customer choice and
7 migration issues with power procurement options for PSNH, including current
8 practices, competitive procurement through RFPs, purchasing through the spot
9 market, or other market based options. We also intend to pursue the issues
10 identified in Docket No. DE 06-061, in Order No. 24,819 (January 22, 2008)
11 regarding time-of-use rates and advanced metering infrastructure (smart
12 metering) and their possible impact on load and procurement options. We will
13 develop these issues and a process to consider them in greater detail in a
14 subsequent order in a separate docket (Order 25,061, December 31, 2009, page
15 32). "

16
17 Second, in the same docket, PSNH filed a petition on May 4, 2010, requesting the Commission
18 to adjust PSNH's energy service rates, effective for service provided on and after July 1, 2010.
19 As detailed in the petition, PSNH's customers are beginning to realize the benefits of a
20 competitive marketplace and have begun to migrate off of default service in order to buy power
21 at a lower cost from competitive third party suppliers. The effect of this customer migration on
22 PSNH has been less customers to pay Energy Service (ES) rates, making it more difficult for
23 PSNH to cover the fixed costs of its generation and purchase power commitments. In its May
24 petition, PSNH seeks to address this effect of a competitive marketplace by requesting recovery

1 of certain energy service costs through the development of a new non-bypassable charge that all
2 customers – including those exercising their right to leave PSNH’s default service and those
3 remaining on default service – would pay.

4
5 The Commission responded to both these issues in Docket DE 09-180 by issuing an Order of
6 Notice on June 11, 2010 in which it opened a new docket to consider two issues – issues related
7 to PSNH’s customer migration, and PSNH’s practices for procuring power not supplied by its
8 owned generation. Thus the purpose of this docket is to more fully investigate issues raised in
9 the context of Docket DE 09-180 and to specifically address whether PSNH should be
10 permitted to create a non-bypassable mechanism to bill energy service charges to all
11 distribution customers and whether alternative procurement strategies for PSNH should be
12 implemented in order to better insulate ratepayers from PSNHs imprudent generation charges.

13
14 **Q. Does NEPGA have recommendations to offer the Commission in regard to this docket?**

15 A. Yes, NEPGA has two recommendations. First, the Commission should not create a non-
16 bypassable mechanism for recovery of any energy service costs for PSNH. Second, the
17 Commission should suspend further consideration of related dockets that address procurement
18 issues until Docket DE 10-160 has concluded. This will allow for the proper consideration of
19 common competitive procurement issues in one docket.

20
21 **Q. Why does NEPGA oppose the creation of a new non-bypassable mechanism for recovery
22 of PSNH energy service costs?**

23 A. NEPGA believes the creation of a new non-bypassable mechanism for recovery of specific
24 energy service costs is not consistent with the intent of electric restructuring in the state, and

1 creates an unlevel playing field between PSNH and the merchant generators who own and
2 operate approximately 75 percent of the generation in the state of New Hampshire. Pursuant to
3 restructuring, customers were given the ability to shop in the market for the lowest cost
4 generation and to exercise a right to leave PSNH's default energy service to take advantage of a
5 cost-saving opportunity. It was understood that customers could leave default service to take
6 advantage of a competitive market and customer choice and not be required to subsidize those
7 customers who did not exercise their right to chose alternative supply. PSNH was allowed to
8 keep a portion of its generation resources to provide default service to its customers but it was
9 very clear that any costs associated with providing this service would be recovered through the
10 energy service portion of rates, not a non-bypassable component of rates.

11
12 **Q. Would any of NEPGA's members in New Hampshire be afforded the same treatment as**
13 **PSNH if a new non-bypassable mechanism were created?**

14 A. No. PSNH is a distribution utility company so it would have the conduit to charge and recover
15 this fee to all its customers, even those leaving default service. As a competitive market
16 participant, a merchant generator does not have that same opportunity. Thus when market
17 prices are low and the generator has less money to cover its fixed costs, it must become more
18 efficient and ultimately its shareholders, not captive ratepayers, bear any cost burden. Creating
19 a non-bypassable charge solely for PSNH to recover its utility generation costs clearly creates
20 an unlevel playing field between merchant generators and utility-owned generation that was not
21 the intention of electric restructuring in New Hampshire.

22
23 **Q. Are there any other concerns that NEPGA has about creating a new non-bypassable**
24 **mechanism?**

1 A. Yes. NEPGA questions the legality of creating this new mechanism. Would the Commission
2 have the authority to create the new rate or would this authority have to be granted by the
3 Legislature? We believe this is an important issue that must also be considered in this docket.

4
5 **Q. How would NEPGA recommend the Commission address PSNH's increased energy
6 service costs and recovery of these costs?**

7 A. NEPGA believes the Commission must adhere to the intent of restructuring – costs associated
8 with generation resources and power purchase arrangements to serve customer load should be
9 appropriately recovered through the bypassable energy service charge. Pursuant to this docket,
10 PSNH states in its July 30, 2010 pre-filed testimony of Robert Baumann that prices will
11 fluctuate, noting:

12 “The current short-term unprecedented market price decline over the past 24 months
13 had allowed certain marketers to offer selected larger customers lower ES rates than
14 provided by PSNH's default ES rates. We do not believe the past 24 months is an
15 accurate indicator for long-term prices (pages 7-8)”.

16
17 Currently PSNH's default ES rates are higher than prevailing market prices. PSNH contends
18 this will change over time begging the question of why the Commission would want to expend
19 the effort to create a new recovery mechanism when PSNH itself admits the situation causing
20 its current concern will be addressed in the long-term by the market.

21
22 **Q. Regarding your second recommendation in this docket, why does NEPGA suggest the
23 Commission should suspend further consideration of related dockets that address
24 procurement issues?**

1 A. Docket DE 10-160 seeks to address issues related to PSNH's procurement practices, including
2 issues such as PSNH's current practices, competitive procurement through RFPs, purchasing
3 through the spot market, or other market-based options. At the same time that the Commission
4 is conducting Docket DE 10-160, there are other pending and future dockets that address
5 elements of the PSNH procurement issue including Docket 10-195, the docket to approve the
6 Laidlaw PPA between PSNH and Laidlaw, and the required IRP docket that is slated to be
7 opened later this fall, as well as the pending Clean Power complaint against PSNH and whether
8 it is obligated to negotiate with all market participants for power purchases in Docket 09-067.
9 Most troubling is Laidlaw's August 17th petition in Docket 10-195 for expedited consideration
10 of this pending 20-year purchase power agreement to allow for an effective date of November
11 2010. If these other dockets proceed separate from Docket DE 10-160, the outcomes of Docket
12 10-160 may be rendered meaningless by decisions made in other concurrent dockets.

13
14 **Q. Does NEPGA suggest that the Commission combine the dockets into one?**

15 A. That may be one option. Another option that may be more feasible given the varying level of
16 activity to date on these other dockets is to highlight these dockets, and identify any other that
17 address procurement issues that are the subject of Docket 10-160, and delay any further
18 consideration of these other highlighted dockets until Docket 10-160 is concluded. Regardless
19 of whether all the dockets become one, which may not be feasible, or the Commission issues
20 procedural orders in the other dockets delaying further consideration until Docket 10-160 is
21 concluded, NEPGA strongly recommends that the Commission cannot allow the other dockets
22 to continue and reach a conclusion that is contrary to the outcome of Docket DE 10-160.

1 **Q. Given the understanding of how NEPGA recommends the Commission address the**
2 **procurement options in this docket and other pending dockets, are there specific policy**
3 **issues related to procurement that NEPGA would like to address?**

4 A. Yes. It is absolutely imperative that the process by which PSNH procures additional supply
5 through purchase power arrangements is a competitive, transparent, open process whereby all
6 interested and qualified market entities can participate. Among other elements, this process
7 should allow for notice to potential participants, an opportunity for public participation, stated
8 standards applicable to all players, and a review process. One option is to adopt the
9 recommendation made by TransCanada in Docket DE 09-180 to require PSNH to issue a
10 Request for Proposals (“RFP”) for any of its supply needs not met by its generation resources.
11 Alternatively, the Commission could allow PSNH to continue to directly seek long-term
12 contracts but require the use of a competitive RFP process that is open to all market
13 participants. This fair and transparent model allows a wide range of market participants to
14 harness competitive market principles and guarantees the most open and cost-efficient outcome
15 to New Hampshire ratepayers. The use of an RFP process seeks to expand the pursuit of
16 generation development to a wide range of companies, allowing competitive market principles
17 to deliver the desired generation, at the lowest costs to ratepayers.

18 **Q. Does NEPGA have any other concerns to note regarding Docket DE 10-160?**

19 A. Yes. There is one additional policy issue we would like to highlight.

20

21 **Q. Please detail this additional policy issue.**

22 A. Much of my time in New Hampshire is spent over at the State House. During many discussions
23 over energy legislation, references are made to the “hybrid” electric model in the state. Under
24 this model, customers have retail choice and the three utilities provide default service to their

1 customers, with the notable caveat that PSNH does not issue a RFP for its basic service power,
2 but rather uses its own generation resources, power purchase arrangements and spot market
3 purchases to serve its default service customers hence the “hybrid” nature of the model. All three
4 utilities were afforded the opportunity to recover stranded costs incurred prior to restructuring
5 pursuant to this hybrid model. NEPGA has on many occasions expressed its concern that the
6 hybrid model is not a feasible long-term option for the state and has suggested to legislators the
7 need to evaluate its viability. We believe the issues raised in the migration issue highlight this
8 concern.

9
10 **Q. Please expand on this concern.**

11 A. The hybrid model appears to have inherent conflicts built into the model. For instance, take the
12 current migration issues confronting PSNH. A tenet of restructuring was customer choice –
13 customers were granted the right to shop in the market and enter into supply arrangements with
14 retail electric suppliers. Now that customers are able to fully exercise this right, the customer
15 migration has created concern on PSNH’s part about its ability to most fairly recover its costs
16 and led to the current proposal to create a non-bypassable charge on all customers. This
17 proposal would serve as a disincentive for customer migration. This puts PSNH in a
18 predicament – an owner of generation resources will naturally have the incentive to meet its
19 load requirements via its own resources but a tenet of restructuring is to allow and encourage
20 customer choice.

21
22 **Q. Does NEPGA have a recommendation to offer regarding the “hybrid” model?**

23 A. Yes. While not necessarily appropriate pursuant to this docket or to a Commission proceeding,
24 NEPGA believes policy-makers may want to take an overdue look at this model and its long-

1 term feasibility. This would involve an evaluation of whether changes should be made, and
2 whether New Hampshire should move forward with a more fully restructured model design
3 similar to that found in the majority of the Northeastern states.
4

5 **Q. Please summarize NEPGA's recommendations.**

6 A. Thank you. In summary, NEPGA makes the following specific recommendations to the
7 Commission in Docket DE 10-160:

8 1. PSNH should not be allowed to create a new non-bypassable mechanism for recovery of any
9 energy service costs. Unless these costs become "stranded" and eligible for stranded cost
10 recovery pursuant to a unit retirement or sale, these costs are energy service costs and more
11 appropriately recovered through an energy service cost.
12

13 2. NEPGA recommends that the Commission not allow the other pending dockets, and the soon
14 to be filed IRP case, to proceed independently of this docket. The procurement issues that are
15 core to Docket DE 10-160 are also found in other dockets such as Docket DE 09-067 and
16 Docket DE 10-195. Accordingly, the Commission should suspend further consideration of the
17 related dockets and address the common competitive procurement issues in this case. Further,
18 the Commission should not consider the Laidlaw PPA on an expedited basis in Docket 10-195
19 as requested by Laidlaw.
20

21 3. When addressing the process by which PSNH makes up the difference between its
22 generation resources and the resources needed to serve its default service customers, a Request
23 for Proposal (RFP) process must be utilized to ensure a competitive, transparent, open process
24 whereby all interested and qualified market entities can participate. The use of a RFP process

1 seeks to expand the pursuit of generation development to a wide range of companies, allowing
2 competitive market principles to deliver the desired generation, at the lowest costs to
3 ratepayers.

4

5 **Q. Does this conclude your testimony?**

6 **A.** Yes it does.