

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

**SECOND SUPPLEMENTAL DIRECT TESTIMONY OF  
STEPHEN R. HALL  
Alternate Energy Service Rate  
November 22, 2011**

**Docket No. DE 11-216**

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 (“PSNH”).

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

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

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

8 A. The purpose of my second supplemental testimony is to provide an additional proposal to  
9 the Commission for implementation of Rate ADE in the event that the Commission does  
10 not establish a temporary rate for the Scrubber Project effective January 1, 2012.

11 **Q. Please provide some background describing why PSNH is filing this additional  
12 proposal.**

13 A. On September 23, 2011, PSNH made its initial filing in this docket proposing a concept  
14 for Rate ADE. On October 14, 2011, PSNH filed supplemental testimony providing  
15 PSNH’s initial proposal for a rate under Rate ADE for effect on January 1, 2012. That

1 rate was equal to PSNH's projected marginal cost of providing energy service plus an  
2 adder. The adder was calculated to be equal to the non-operating costs of the Scrubber  
3 Project.

4 On November 15, 2011, the Commission issued a secretarial letter in Dockets DE 11-215  
5 and DE 11-216 stating that it will open a separate docket in which to consider the in-  
6 service status, PSNH's prudence, the appropriate rate treatment and the costs of the  
7 Scrubber Project, and that it would not consider any costs of the Scrubber Project in  
8 Dockets DE 11-215 or DE 11-216.

9 On November 18, 2011, PSNH filed a Motion for Establishment of Temporary Rates,  
10 which has been designated as Docket No. DE 11-250. In that Motion, PSNH proposed  
11 that the Commission establish temporary rates for effect January 1, 2012 that would  
12 recover Scrubber costs. PSNH further suggested that if the Commission deems  
13 inappropriate the establishment of temporary rates at the proposed level, in the alternative  
14 the Commission could allow the existing rate level for PSNH's Energy Service rate to  
15 remain in effect beyond December 31, 2011 on a temporary basis until it decides the  
16 treatment of the Scrubber-related costs.

17 **Q. In view of the Commission's November 15, 2011 secretarial letter and PSNH's**  
18 **November 18, 2011 Motion, what is PSNH proposing in this docket for a rate under**  
19 **Rate ADE?**

20 A. PSNH is proposing one of two options, depending on the outcome of the Commission's  
21 determination of PSNH's Motion. If the Commission grants PSNH's request to establish  
22 temporary rates effective January 1, 2012 to recover the costs of the Scrubber, then  
23 PSNH recommends that the Commission also establish a rate under Rate ADE as  
24 proposed by PSNH in its October 14, 2011 filing in this docket, based on PSNH's

1 marginal costs plus an adder equal to the non-operating costs of the Scrubber (as  
2 determined in Docket No. DE 11-250). That rate will be updated on December 14, 2011,  
3 along with PSNH's update to its proposed Energy Service rate for effect January 1, 2012.  
4 If the Commission establishes temporary rates for effect on January 1, 2012 at the  
5 existing Energy Service rate level, then PSNH proposes that the Commission establish a  
6 rate under Rate ADE that is equal to PSNH's marginal costs of providing energy service,  
7 plus an adder of one cent per kWh. The one cent adder would remain at that level until  
8 such time that PSNH begins recovering the costs of the Scrubber through its Energy  
9 Service rate, at which point the adder would then be calculated at the non-operating costs  
10 of the Scrubber.

11 **Q. What if the Commission denies PSNH's Motion for Establishment of Temporary**  
12 **Rates in its entirety?**

13 A. In that case, PSNH proposes that the Commission establish a rate under Rate ADE using  
14 an adder of one cent per kWh, and leave the adder at that level until PSNH commences  
15 recovery of the cost of the Scrubber through its Energy Service rate, at which point the  
16 adder would then be calculated at the non-operating costs of the Scrubber.

17 **Q. If the Commission does not commence cost recovery of the Scrubber as of January**  
18 **1, 2012, doesn't that mean that the implementation of Rate ADE must also be**  
19 **delayed?**

20 A. No, it doesn't. The calculation of Rate ADE has two components: the marginal cost of  
21 providing the service, plus an adder. In PSNH's October 14, 2011 filing in this docket,  
22 PSNH stated that the adder was being set at the non-operating cost of the Scrubber in  
23 order to comply with the law that requires the costs of the scrubber to be recovered

1 through the Energy Service rate. However, that doesn't mean that if Scrubber costs are  
2 not included in PSNH's rates, the basis for Rate ADE no longer exists. In fact, even  
3 without Scrubber cost recovery, PSNH's customers could still benefit by the  
4 implementation of Rate ADE because the adder will provide benefits to all other  
5 customers that will not otherwise exist. As discussed below, the existence of an adder in  
6 excess of marginal cost is what provides benefits to all other customers.

7 **Q. If the Commission accepts this proposal and does not commence recovery of the**  
8 **costs of the Scrubber through PSNH's Energy Service rate as of January 1, 2012,**  
9 **what is the basis of the one cent per kWh adder?**

10 A. The purpose of the adder is to provide revenue in excess of PSNH's marginal cost that  
11 provides benefit to all other customers. The amount of the adder should be as large as  
12 possible in order to provide the largest benefit to other customers, yet it cannot be so  
13 large that it makes the rate unattractive to customers compared with other prices available  
14 to them. In PSNH's judgment, the amount of the adder should be one cent per kWh. If  
15 the adder was priced lower (e.g., at 0.5 cents per kWh), there is the risk that value to  
16 PSNH's existing Energy Service customers would be foregone, since PSNH's judgment  
17 is that many as customers would still return to PSNH for energy service at a higher rate  
18 level as compared to the number of customers who would return with an adder of 0.5  
19 cents. Therefore, PSNH does not believe that an adder that is significantly lower than  
20 one cent will produce any additional contribution above marginal costs. Moreover, as the  
21 adder decreases, there is the risk that an upward shift in market prices could cause a  
22 temporary risk<sup>1</sup> for all other customers that the price under Rate ADE would be below  
23 PSNH's marginal cost. Conversely, if the adder was higher (e.g., two cents per kWh),

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<sup>1</sup> The risk is temporary since Rate ADE is subject to change after six months in the event that market prices shift significantly from the time when the rate is established.

1 the rate level might not be attractive enough to provide an incentive for customers to  
2 return. Therefore, in any of the above situations, PSNH proposes that the Commission  
3 approve Rate ADE with a rate based on an adder of one cent per kWh.

4 **Q. Please summarize your recommendation.**

5 A. PSNH is recommending that if the cost of the Scrubber is not included in PSNH's Energy  
6 Service rate as of January 1, 2012, the Commission still approve Rate ADE and set the  
7 amount of the adder at one cent per kWh until such time that Scrubber costs are included  
8 in the Energy Service rate. At that time, the rate under Rate ADE should be modified so  
9 that the adder is equal to the non-operating costs of the Scrubber, in order to comply with  
10 the law.

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

12 A. Yes, it does.