

**THE STATE OF NEW HAMPSHIRE**  
**BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**  
**PREPARED TESTIMONY OF ROBERT A. BAUMANN**  
**2013 DEFAULT ENERGY SERVICE RATE CHANGE**  
**Docket No. DE 12-XXX**

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

2 A. My name is Robert A. Baumann. My business address is 107 Selden Street, Berlin,  
3 Connecticut. I am Director, Revenue Requirements, Massachusetts and New  
4 Hampshire.

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

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

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

8 A. The purpose of my testimony is: (1) to provide an overview of this filing; and (2) to seek  
9 the necessary approvals to set the Default Energy Service (ES) rate applicable to  
10 PSNH's customers who take service under Rate DE that will take effect on January 1,  
11 2013.

12 **Q. Please provide the historic and current ES rates.**

13 A. In this proceeding, PSNH is requesting the Commission to determine an updated, single  
14 ES rate for all eligible customers effective January 1, 2013, based on a forecast of  
15 PSNH's costs of providing such power for the calendar year 2013.

16 The table below outlines ES rates in effect from May 1, 2001 to the present for  
17 residential, small general service customers (Group 1) and large commercial and

1 industrial customers (Group 2). Included in the ES rate effective April 16, 2012 are the  
2 costs associated with the wet flue gas desulphurization system (Scrubber) installed at  
3 PSNH's Merrimack Station which are being separately reviewed in Docket DE 11-250.  
4 The temporary Scrubber rate of 0.98 as ordered in DE 11-250, Order No. 25,346,  
5 remains unchanged.

**Date of Service**

May 2001 - January 2003	(a)	4.40 cents per kWh
February 2003 - January 2004	(b)	4.60/4.67
February 2004 - July 2004		5.36
August 2004 - January 2005		5.79
February 2005 - July 2005		6.49
August 2005 - January 2006		7.24
February 2006 - June 2006		9.13
July 2006 - December 2006		8.18
January 2007 - June 2007		8.59
July 2007 - December 2007		7.83
January 2008 – June 2008		8.82
July 2008 – December 2008		9.57
January 2009 – July 2009		9.92
August 2009 – December 2009		9.03
January 2010 – June 2010		8.96
July 2010 – December 2010		8.78
January 2011 – June 2011		8.67
July 2011 – December 2011		8.89
January 2012 – April 15, 2012		8.31
April 16, 2012– June 2012	(c)	8.75
July 2012 – December 2012	(c)	7.11

- (a) Set by statute for all retail customers.
- (b) Small C&I and residential rate set by statute (4.60 cents).  
Large C&I rate set on forecasted costs (4.67 cents).
- (c) These rates include 0.98 cents per kWh for Merrimack Scrubber costs.

6 Initially, Energy Service rates were set by statute. Beginning in February 2003, the  
7 Energy Service rate for large commercial and industrial customers (Group 2) was based

1 on PSNH's forecast of "actual, prudent and reasonable costs" (4.67 cents). Beginning in  
2 February 2004, the Energy Service rate for all retail customers was based on a forecast  
3 of PSNH's "actual, prudent and reasonable costs."

4 In its initial decision in Docket No.DE 03-175 (Order No. 24,252), the Commission  
5 reiterated its desire to avoid ES cost deferrals. As a way to minimize these deferrals, the  
6 Commission provided any interested party the option of making an interim ES rate filing  
7 in July, with the objective of setting a revised ES rate effective on August 1. This interim  
8 process has been used in recent years. Beginning in 2007, the ES rate year was  
9 adjusted to coincide with the calendar year January – December. In 2012, the current  
10 ES rate was adjusted effective July 1, 2012.

11 **Q. Is PSNH proposing a specific ES rate at this time?**

12 A. No, we are not. In prior ES proceedings, the Commission has required PSNH to utilize  
13 market information that is most current as of the hearing date. In light of that precedent,  
14 at this time PSNH is supplying preliminary market data and operational data for its  
15 owned generation as well as for existing power purchase obligations (such as IPPs).  
16 PSNH will formally propose an ES rate, and provide a rate calculation based on updated  
17 market information, prior to the anticipated hearing in December 2012.

18 **Q. Will the updated filing use the same calculation methodologies as in previous**  
19 **proceedings?**

20 A. Yes.

1 **Q. Has PSNH performed a preliminary calculation of what its projected actual,**  
2 **prudent, and reasonable costs of providing Energy Service will be from January 1,**  
3 **2013 through December 31, 2013?**

4 A. Yes. As shown on Attachment RAB-1, for the period from January 1, 2013 through  
5 December 31, 2013, PSNH's preliminary calculation of a projected ES rate prior to the  
6 inclusion of the cost of the scrubber is 7.99 cents per kWh.

7 **Q. Please provide an overview of how customers acquire generation services and**  
8 **how the ES cost recovery mechanism works.**

9 A. As a result of electric industry restructuring, customers may choose their source of  
10 generation service. PSNH's customers may obtain generation service from an approved  
11 competitive supplier, or they may choose to receive their energy from PSNH in the form  
12 of Default Energy Service.

13 Historically, through January 31, 2006, all ES reconciliation amounts (over or under  
14 recoveries) were applied against Part 3 stranded costs. With the elimination of Part 3 of  
15 the SCRC in June 2006, all ES reconciliation amounts effective with ES recovery  
16 beginning February 1, 2006, were no longer applied to Part 3 stranded costs. ES  
17 reconciliation amounts beginning in February 2006 are now being deferred and are  
18 applied to future ES rate recoveries per the Commission's order and findings in Docket  
19 No.DE 05-164, Order No. 24,579, dated January 20, 2006.

1 **Q. Are the costs that PSNH has included in this ES rate filing consistent with the past**  
2 **ES filings?**

3 A. Yes, the major cost categories are consistent. These categories are the revenue  
4 requirements for owned generation assets and the costs of purchased power  
5 obligations. These costs include the fuel costs associated with PSNH's generation  
6 assets, the costs from supplemental energy and capacity purchases, certain ISO-NE  
7 ancillary service charges and the cost of compliance with the Renewable Portfolio  
8 Standard (RPS) and Regional Greenhouse Gas Initiative (RGGI). ES costs also include  
9 non-fuel operation and maintenance costs (O&M), depreciation, property taxes and  
10 payroll taxes, uncollectible costs attributable to ES, and a return on the net generation  
11 investment. All of these costs exclude any impact of the Merrimack Scrubber costs  
12 which are subject to review in Docket DE 11-250.

13 **Q. Please discuss the level of migration assumed in this filing.**

14 A. The level of migration assumed in PSNH's filing reflects the current actual level of  
15 approximately 40.0%. This value represents the actual current migration level on  
16 PSNH's system as of August 31, 2012. Therefore, PSNH's calculations have not  
17 presumed that customers will migrate more or less than what is now actually known.

18 **Q. How is PSNH's mandated purchased power obligations (IPPs) valued in**  
19 **calculating the ES rate?**

20 A. PSNH includes IPP generation as a source of power to meet PSNH's load requirements,  
21 and that power is valued based on projected market costs (energy and capacity). The  
22 over-market portion of purchases from the IPPs are treated as a stranded cost and  
23 recovered through Part 2 of the Stranded Cost Recovery Charge. This treatment is

1 consistent with the Restructuring Settlement and the Commission's Order in Docket DE  
2 02-166. As market prices drop, the value of IPP purchases recovered through the ES  
3 rate drops. However, at the same time, there is a corresponding increase to the SCRC  
4 rate for the above-market value of IPP purchases. To properly match the recovery of  
5 IPP costs, PSNH is filing contemporaneously for a change in the SCRC rate effective  
6 January 1, 2013.

7 In addition, PSNH has reflected the costs associated with the five new Wood IPP  
8 contracts per Order # 25,305 in Docket DE 11-184. The detail for these five contracts  
9 for 2012 and 2013 is shown on pages 7 of both RAB-2 and RAB-4, which contain both  
10 the "at market" and "over market" costs. The over market costs of the five Wood IPPs  
11 are reflected in the SCRC rate.

12 **Q. Is PSNH aware of any renewable portfolio standard (RPS) changes expected over**  
13 **the next few years?**

14 **A.** Yes. At this time, PSNH is aware of a two changes. First, RPS requirements throughout  
15 the region will increase annually putting upward pressure on the demand for qualified  
16 renewable energy certificates (RECs). The requirements are a compilation of RPS  
17 statutes around New England and were discussed in the presentation by ISO-NE  
18 (Stephen J. Rourke, VP of System Planning) at the 2012 Regional System Plan Public  
19 Meeting on September 13, 2012.

20 Second, on August 17, 2012, Massachusetts issued final Massachusetts Class I  
21 renewable regulations addressing biomass eligibility. These new regulations will affect

1 Schiller 5 (NWPP) as well as other existing qualified biomass units in the Massachusetts  
2 market.

3 The new regulations that require biomass units to meet certain standards specific to  
4 forest derived residues and forest derived thinning will reduce the quantity of qualified  
5 biomass RECs in Massachusetts beginning in 2013. We do not know what that impact  
6 will be at this time. PSNH is working with a consultant and its biomass suppliers to  
7 identify and explore all opportunities to satisfy the eligible biomass wood fuel  
8 certification, verification, and enforcement requirements. PSNH will continue to monitor  
9 the overall market changes associated with these new regulations.

10 **Q. Is PSNH concerned that the revenue target associated with the NWPP Sharing**  
11 **Agreement may not be satisfied going forward?**

12 A. No. The revenue target has been satisfied in the past using a sum of REC revenues,  
13 the production tax credit and avoided costs associated with RGGI compliance. PSNH  
14 expects that the overall value of these items will continue to exceed the revenue target.

15 **Q. Does PSNH plan to minimize cost deferrals through a mid-term adjustment?**

16 A. Yes. If a rate adjustment is deemed necessary, PSNH (or any interested party) could  
17 file a petition in early June prior to the beginning of the second half of the Energy Service  
18 Year requesting a change in the Default Energy Service for the remaining six months of  
19 the year. PSNH would submit actual and estimated data on a date specified by the  
20 Commission to allow the parties, Staff and Commission sufficient time to address the  
21 need for an interim adjustment during the 2013 Energy Service Year, if necessary.

1 **Q. Please describe the detailed support for the calculation of the ES rate.**

2 A. Attachment RAB-2 provides detailed cost and revenue components relating to PSNH's  
3 obligation to serve all ES customers. Page 3 of the attachment provides further detail  
4 relating to the energy simulation for the period January 1, 2013 through December 31,  
5 2013. Page 4 provides further detail on the forecasted market value of IPP generation.  
6 Page 5 provides a breakdown of Fossil/Hydro Operation and Maintenance costs and  
7 page 6 provides a detailed calculation of the return on Fossil/Hydro investment. Page 7  
8 provides the detailed breakdown of the Wood IPP purchases. Attachments RAB-3 and  
9 RAB-4 provide the detailed actual and forecasted cost and revenue components relating  
10 to the reconciliation of 2012.

11 **Q. Does PSNH require Commission approval of this rate by a specific date?**

12 A. Yes, PSNH needs final approval of the proposed ES rate by December 26, 2012, in  
13 order to implement the new rate for service rendered on and after January 1, 2013.  
14 Therefore, PSNH requests that the Commission commence a proceeding so that the  
15 procedural schedule can be set to review this filing and approve the ES rate in a timely  
16 manner.

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

18 A. Yes, it does.