

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

ORIGINAL	
N.H.P.U.C. Case No.	DE 13-275
Exhibit No.	#5
Witness	Kenneth E. Traum
DO NOT REMOVE FROM FILE	

In the matter of:
DE 13-275 Public Service Company of New Hampshire
Proposed Default Energy Service Rate for 2014

Pre-filed Direct Testimony

of

Kenneth E. Traum

on behalf of

North American Power and Gas, LLC

Dated: November 27, 2013

1

2

3 **Q. Please state your name, experience, and position in this docket.**

4

5 A. My name is Kenneth E. Traum. Until June 2011, I was the Assistant
6 Consumer Advocate for the New Hampshire Office of Consumer Advocate
7 (OCA). I had worked at the OCA for over 21 years.

8

9 Since that time I have served as an independent consultant, among other pursuits.
10 In this docket I am acting as a consultant for North American Power and Gas,
11 LLC. (NAPG).

12

13 **Q. Have you previously testified before the New Hampshire Public Utilities**
14 **Commission (Commission)?**

15

16 A. Yes. I have testified before the Commission on many occasions for the OCA
17 in proceedings involving electric, natural gas, water, and telecommunications
18 utilities. (See Attachment 1)

19

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

21

22 A. While NAPG reserves the right to raise additional issues at hearing, this
23 testimony focuses on the level of Public Service Company of New Hampshire
24 (PSNH) energy service sales migration as it impacts the forecasted Energy Service
25 (ES) rate for 2014.

26 My specific recommendation is that the PSNH ES rate calculation for 2014 be
27 changed to reflect the strong and consistent trend of increasing customer sales

1 migration away from ES. This would be consistent with the way PSNH projects
2 on a forward looking basis other cost and revenue categories used in its 2014 ES
3 calculations projection, as reflected in Attachment EHC-1, page 1.

4
5 It is the use of the latest migration rate information in the year preceding the rate
6 year (here, late 2013), and not a forecasted rate for the 12 month ES rate year
7 (here, calendar 2014) that I view as inconsistent with the rest of the PSNH ES
8 filing and with sound ratemaking principles. This approach systematically
9 overstates the number of PSNH customers on ES service during the 2014 rate year
10 and, consequently, understates the ES rate. This understatement also results in a
11 substantial undercollection at the end of the calendar year.

12
13 Using a forecasted migration rate would also help in setting a more reasonable and
14 record-based ES rate for 2014 and afford a better opportunity of minimizing any
15 over/under collection at the end of 2014.

16
17 **Q. What conclusions did you reach?**

18
19 A. Migration has been rising steadily and consistently ever since PSNH ES rates
20 began substantially exceeding prevailing electricity market rates in 2010 and
21 especially into 2011. Using conservative assumptions, and based on PSNH's
22 September 27, 2013 filing, the historical trend in migration since August 2011
23 extended to 2014 would result in an increase of the ES rate of 0.35 cents/KWH all
24 other things being held equal. To be conservative, I am recommending that PSNH
25 be directed to increase the ES rate by 0.3 cents/KWH in order to recognize the
26 consistent trend in migration over the past several years.

1 **Q. Please explain how you reached this conclusion.**

2
3 A. I started by charting PSNH's reported monthly migration from August 2011
4 through the most current data available to me. Since PSNH calculates and reports
5 migration two different ways for DE 06-125 and ES, I charted both and developed
6 trend lines from that data through the midpoint of 2014.

7
8 Based on the data filed in DE 06-125, the migration sales rate as of June 2014 will
9 have increased from 56.13% as of September 2013 (the most recent data available
10 to me) to approximately 62% for June 2014. (See Attachment 2).

11
12 Under PSNH's ES migration methodology, which is PSNH's preferred
13 methodology, migration can be expected to increase from 52% as of August 2013
14 (the most recent data available to me) to approximately 56% for June 2014. (See
15 Attachment 3).

16
17 **Q. Why did you use June 2014?**

18
19 A. I used June 30 as it is the midpoint of the year, so it would incorporate half of
20 the expected migration increase expected to occur in 2014.

21
22 **Q. Since you have developed two migration rates, 62% and 56% which**
23 **represent trended migration for 2014, which percentage did you use?**

24
25 A. To be very conservative, I used 56% which corresponds to PSNH's preferred
26 method for measuring monthly migration.

1 **Q. Since PSNH based its 2014 ES rate, per its initial September, 27, 2013**
2 **filing, on a migration rate for 2014 of 52%, how would you suggest revising**
3 **the ES rate to incorporate a 56% migration rate for 2014?**

4
5 A. CLF in its discovery request 004 to PSNH requested ES rates at different
6 migration levels, but PSNH objected to the question, so I was forced to improvise.
7 As shown in Attachment EHC-1, page 1 line 32, PSNH forecasted retail MWH
8 sales for 2014 are 3,830,948. Since this is based on an assumed 52% migration
9 rate, using 56% would reduce the retail ES MWH sales forecast for 2014 to
10 3,511,702.

11
12 Next I recognized that with the exception of lines 13 and 14 of that Attachment,
13 the other major cost categories would change more or less consistently with a drop
14 in sales.

15
16 I singled out lines 13 and 14 (F/H O&M, depreciation and taxes and return on rate
17 base) as being basically fixed regardless of ES sales levels. I reached this
18 conclusion in part due to PSNH's response to NAPG 1-011:

19
20 With a 1% change in migration the change in energy
21 requirement could be reflected in the fleet generation and/or
22 market purchases, regardless, the volume would not
23 definitively change the estimate of F/H O&M costs included
24 in the filing.

25
26 **Q. Attachment EHC-1 shows that F/H O&M, depreciation, taxes, and return**
27 **on rate base add approximately \$146 million of costs in 2014 or 3.81 cents per**

1 **KWH to the ES rate assuming 3,830,948 MWH for forecasted 2014 ES sales.**
2 **If instead that forecasted cost for 2014 of approximately \$146 million were to**
3 **be recovered from only 3,511,702 MWH what would be the impact on the ES**
4 **rate?**

5
6 A. In order to recover the forecasted \$146 million from the smaller ES sales base,
7 the 3.81 cents would have to increase to 4.16 cents, thus increasing the ES rate by
8 0.35 cents per KWH.

9
10 **Q. Do you propose use of a 0.35 cents per KWH increase, all other things**
11 **being equal?**

12
13 A. While it would represent a reasonable estimate that appropriately reflected
14 anticipated migration levels at mid-June 2014, I propose to add an element of
15 additional conservatism by reducing this recommendation to a 0.30 cents per
16 KWH increase over the current PSNH calculation, all other things being equal.

17
18 **Q. Do you have anything else to say concerning why you propose not to**
19 **continue using the migration figure used in the preceding calendar year, even**
20 **though that figure has been approved by the Commission in past ES rate**
21 **filings?**

22
23 A. Yes. I can understand the reasoning of PSNH and the Commission at the
24 dawn of significant retail competition in New Hampshire to be conservative and
25 not to assume that migration will increase in the upcoming year, thereby creating a
26 pricing change that might itself lead to increased migration. But after several
27 years of experience of steadily and consistently increasing migration, it is past

1 time to apply the usual forecasting approach to migration data that is used in
2 connection with other costs and rate elements in the ES rate formula. To the best
3 of my knowledge, PSNH ES prices remain substantially above market prices and
4 sales and marketing efforts of existing and new competitive suppliers in New
5 Hampshire remain very active. Accordingly, I see no reason the trend towards
6 migration will not continue strongly throughout 2014.

7
8 **Q. Does this complete your testimony?**

9
10 **A. Yes.**
11
12