STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 18-073

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
d/b/a EVERSOURCE ENERGY

Reconciliation of Energy Service and Stranded Costs for Calendar Year 2017

Order Approving Reconciliation

O R D E R N O. 26,237

April 25, 2019

APPEARANCES: Matthew J. Fossum, Esq., on behalf of Public Service Company of New Hampshire d/b/a Eversource Energy; the Office of the Consumer Advocate by D. Maurice Kreis, Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this order, the Commission approves Eversource's reconciliation of energy service and stranded costs for calendar year 2017. This approval has no effect on rates because the reconciliation results were included in the 2017 energy service rate and stranded cost recovery charge.

I. PROCEDURAL HISTORY

On June 1, 2018, Public Service Company of New Hampshire d/b/a Eversource Energy (Eversource or the Company) filed testimony with related schedules and exhibits in support of a proposed reconciliation of revenues and costs associated with its stranded cost recovery charge (SCRC) and energy service (ES) rate, for calendar year 2017.

The SCRC is the mechanism Eversource uses to recover certain restructuring-related stranded costs as allowed under the 1999 Agreement to Settle PSNH Restructuring (Restructuring Settlement) approved by the Commission. *See PSNH Proposed Restructuring Settlement* Order No. 23,433 (April 19, 2000); Order No. 23,549 (September 8, 2000); and Order

No. 23,563 (September 29, 2000); *see also Public Service Co. of N.H.*, Order No. 24,125 (February 14, 2003) (approving the Company's initial SCRC reconciliation for the period from May 1, 2001, through December 31, 2001).

Prior to divestiture, Eversource recovered the costs of providing power from its generating units and its supplemental power purchases through the energy service (ES) rate. In Order No. 24,579 (January 20, 2006), the Commission determined that the reconciliation of revenues collected and prudently incurred costs associated with default energy service would be reconciled in the ES rate.

The Office of the Consumer Advocate (OCA) filed a letter of participation in this proceeding pursuant to RSA 363:28 on June 11, 2018. The Commission issued an order of notice on July 20, 2018. Following a period of discovery, Eversource filed an update to the testimony of Christopher J. Goulding on January 4, 2019. A hearing on the merits was held on January 10, 2019.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-073.html.

II. POSITIONS OF THE PARTIES AND STAFF

A. Eversource

In 2017, energy service costs included the fuel costs associated with Eversource's generation, as well as costs and revenues from energy and capacity sales and purchases. Costs related to the Renewable Portfolio Standard and the Regional Greenhouse Gas Initiative were included. *See* RSA 362-F and RSA 125-O, respectively. Energy service costs also included power purchased from Independent Power Producers (IPPs) at market prices; revenue requirements of generation such as non-fuel operation and maintenance (O&M); depreciation, property taxes, and payroll taxes; and a return on net generation investment.

The Restructuring Settlement requires Eversource to provide energy service to those customers in its franchise area who do not choose to obtain ES from a competitive supplier. Until divestiture was completed,[1] the ES rate for all retail customers was based on the Company's forecast of the actual, prudent, and reasonable costs of providing energy service. RSA 369-B:3, IV(b)(1)(A). To develop energy service rates, Eversource prepared an annual forecast of energy cost and proposed rates for the next calendar year, with rates to be effective on a service-rendered basis beginning January 1 of each year. Similarly, Eversource developed an estimate of the costs and revenues associated with SCRC obligations, and updated the forecasts of both ES and SCRC mid-year for effect on a service rendered basis on July 1. In the subsequent year, on May 1, Eversource filed a reconciliation of the estimated costs and revenues, with actual costs and revenues for review by the Commission.

The June 1, 2018, filing represents the reconciliation of the SCRC and ES costs and revenues for calendar year 2017. [2] In pre-filed testimony, Eversource provided an overview of the reconciliation between the revenues and expenses reported in the Company's ES and SCRC filings for the twelve-month period from January 1 through December 31, 2017. In the Restructuring Settlement, the Commission categorized stranded costs into three parts: Part 1, Part 2, and Part 3. As of 2017, the only remaining costs were Part 2, consisting of the over-market costs of power produced by IPPs, and buy-outs and buy-downs of IPP contracts

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[1] In Docket No. DE 14-238, the Commission approved the 2015 PSNH Restructuring Settlement Agreement. This Agreement directed the completion of Eversource's divestiture of its generation assets, changed the way Eversource procures and prices ES for customers who have not selected a competitive supplier, and modified the costs and revenues eligible for recovery through the SCRC. *See Public Service Co. of N.H.*, Order No. 25,920 (July 1, 2016).
[2] Eversource began divesting its generation in 2018, making 2017 the last full year where Eversource's owned generation provided energy supply to its ES customers.

approved by the Commission. For calendar year 2017, Eversource said that the total accumulated balance of Part 2 costs increased by $8.1 million from an over-recovery of ($6.6) million at the end of 2016 to a $1.5 million under-recovery at the end of 2017, primarily due to actual above-market IPP costs being higher than forecasted.

For ES, Eversource stated that the Company experienced a net adjusted under-recovery balance of approximately $30 million in energy service revenue.[3] Eversource attributed the under-recovery to: (1) actual energy revenue - $4.5 million lower than forecasted; (2) fuel costs - $9.2 million higher than forecasted; (3) costs for renewable portfolio standard compliance - $6.4 million higher than forecasted; (4) capacity credits $5.6 million lower than forecasted; (5) O&M expenses - $3.2 million higher than forecasted; and (6) contract settlement costs of $3.4 million.[4] Those amounts were offset by $2.3 million in other expenses that were lower than forecasted. Eversource also included an updated lead/lag study in its filing.

Eversource reported how the Company's generation resources and supplemental purchases were utilized to meet energy and capacity requirements for 2017. As a load-serving entity, Eversource must have sufficient energy to meet the hourly needs of its customers, and must also ensure it meets its share of the capacity requirements set by the independent system operator of the New England energy grid, ISO New England, Inc. (ISO-NE). In 2017, Eversource met its energy and capacity requirements through its owned generation, purchases required by the Public Utility Regulatory Policies Act of 1978 (PURPA), power purchase agreements, and through supplemental purchases of energy and capacity from the market.

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[3] The $30 million under-recovery is net of the $104.1 million under-recovery associated with the installation of a wet flue desulphurization (Scrubber) unit at Merrimack Station. In 2017, Eversource recovered costs associated with the Scrubber through a surcharge on energy service rates approved by the Commission in Order No. 25,920 (July 1, 2016).

[4] In Docket No. DE 17-075 the Commission authorized recovery of the contract settlement costs through rates. The $3.4 million in contract settlement costs were excluded from rate recovery while resolution of the matter was pending.

For 2017, Eversource met a portion of its requirements through generation resources owned by the Company. This included energy from nine hydroelectric dams; coal- and biomass-fired generating units (at Merrimack and Schiller Stations); and natural gas and oil-fired generating units (at Newington and Wyman Stations).

Eversource reported that, during 2017, 47 percent of on-peak energy requirements and 52 percent of off-peak energy requirements were met with Eversource's generation resources, as well as from output of non-utility IPPs. The remaining energy needs were met through bilateral or spot market energy purchases. Eversource purchased approximately 927 gigawatts hours (GWhs) of on-peak energy at an average cost of $40.38 per megawatt hour (MWh). Eversource purchased approximately 808 GWh of off-peak energy at an average cost of $32.32 per MWh. The combined expense for all supplemental energy purchases for 2017 was $63.6 million. At times during the year, when Eversource generation units produced more power than required by its customers, Eversource sold the excess power in the regional spot market, for a total of $4.2 million in revenue.

The capacity market in New England is governed by the Forward Capacity Market (FCM) rules administered by ISO-NE. ISO-NE conducts Forward Capacity Auctions (FCA), into which capacity resources offer megawatts to procure the lowest cost resources necessary to meet ISO-NE installed capacity requirements, and to establish the market value of capacity. The capacity prices established for 2017 were $3.150 per kilowatt month for the January 1 to May 31 period, and $7.025 per kilowatt month for the June 1 to December 31 period. During 2017, Eversource's capacity assets, including owned assets, non-utility IPPs, and Hydro Quebec Interconnection Capacity Credits, exceeded capacity market expenses, resulting in net revenue and credit to ES customers totaling $71.2 million.

Eversource included with its filing a summary of the results of all planned and unplanned outages that occurred at its generation plants during 2017. Eversource explained that the 2017 capital and O&M expenses associated with generation reflected a number of planned major maintenance activities, including a boiler overhaul on Merrimack Unit 1, overhaul of Schiller Units 5 and 6, and license renewal associated with the Eastman Falls Hydro Station. In addition, with continued periods of low electrical demand and low power market prices, Eversource adjusted outage durations to use less overtime to minimize costs for customers. Eversource said that while this practice may extend the duration of the outage, the total outage expense is minimized by avoiding the associated overtime costs.

At hearing, Mr. Goulding explained that his updated testimony presented revisions and corrections to the lead/lag study prepared by Eversource for this filing. Mr. Goulding said he made several adjustments to components of the study, including employee incentive payroll, property taxes, and payments and revenues related to the purchase and sale of renewable energy certificates purchased for compliance with the State's renewable portfolio standard requirements. According to Mr. Goulding, as a result of those changes, he calculated a reduction in working capital requirements from $16.54 million, to $12 million.

Eversource concluded that its filing was an accurate depiction of its actual, prudent, and reasonable costs incurred with providing energy service to the public, and requested that the Commission accept the reconciliation.

B. OCA

According to the OCA, the Commission should exclude all costs included in the lead/lag study associated with power purchases, which would have the effect of reducing working capital requirements from approximately $12 million to approximately $4 million. The OCA maintains that allowing recovery of working capital related to power purchases would alter the fundamental bargain that has governed the way the Company has recovered the cost of providing energy services since the adoption of RSA 369-B:3 in 2000. As to the calculation of the reconciliation, the OCA stated that the filing complied with the Commission's requirements and recommended its approval.

C. Staff

Staff said it had reviewed the filing and requested revisions to the lead/lag study following discovery. With the revised and updated lead/lag study, Staff said that Eversource properly prepared the filing and that the results of the reconciliation are in the public interest. Staff recommended that the Commission approve the filing.

III. COMMISSION ANALYSIS

Under the Restructuring Settlement, Eversource was obligated to use its generation fleet for the provision of its energy service during 2017 and may recover its "actual, prudent, and reasonable costs" in connection with such use of those facilities. RSA 369-B:3, IV(b)(1)(A) (noting that this obligation remained effective until Eversource divested its generation fleet). To the extent that Eversource procured retail energy from other sources, we must review the prudence of those costs as well.

We have reviewed the testimony and the record in this proceeding and find the reconciliation reflects the actual, prudent, and reasonable costs incurred by Eversource in providing energy service to its customers, and that the reconciliation of stranded costs is appropriately calculated.

We approve the results of the revised lead/lag study filed on January 4, 2019, and find it appropriate for Eversource to use the results of that study in the development of rates. We recognize that Eversource purchased power from other sources when the cost of producing power from Eversource's owned generation exceeded market prices, and that Eversource also has ongoing obligations to purchase power pursuant to certain purchase power agreements, and PURPA contracts. On that basis, we find that it is appropriate for Eversource to include the lead/lag results associated with such purchases in its lead/lag study in the calculation of working capital requirements for energy service rates.

Based upon the foregoing, it is hereby

ORDERED, that Eversource's reconciliation, as modified by the revised lead/lag study filed on January 4, 2019, is hereby APPROVED; and it is

FURTHER ORDERED, that Eversource is authorized to use the results of the revised lead/lag study in the calculation of working capital requirements for energy service rates.

By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of April, 2019.

Martin P. Honigberg Chairman	Kathryn M. Bailey Commissioner	Michael S. Giaimo Commissioner

Attested by:

Debra A. Howland
Executive Director

ExecutiveDirector@puc.nh.gov

jody.carmody@puc.nh.gov
christopher.goulding@eversource.c
donald.kreis@oca.nh.gov
james.brennan@oca.nh.gov
kristi.davie@eversource.com
ocalitigation@oca.nh.gov
william.smagula@eversource.com
matthew.fossum@eversource.com
amanda.noonan@puc.nh.gov
leszek.stachow@puc.nh.gov
richard.chagnon@puc.nh.gov
suzanne.amidon@puc.nh.gov
tom.frantz@puc.nh.gov

RICHARD FRANCIS

8 Prince Lane
Raymond NH 03077