

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 14-235

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition to Set 2015 Default Energy Service Rate

Order Approving 2015 Energy Service Rate

ORDER NO. 25,741

December 29, 2014

APPEARANCES: Matthew J. Fossum, Esq., on behalf of Public Service Company of New Hampshire; the Office of Consumer Advocate by Susan W. Chamberlin, Esq., on behalf of residential ratepayers; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves an energy service rate increase proposed by PSNH for effect on a service-rendered basis as of January 1, 2015. Combined with the rate increase approved to PSNH's stranded cost recovery charge and distribution rates, residential customers who use 625 kWh per month, the average use by residential customers, will experience monthly bill increases of \$6.83 cents, from \$111.50 to \$118.33, a 6.13% increase.

I. BACKGROUND AND PROCEDURAL HISTORY

Under RSA 369-B:3, IV(b)(1)(A), customers taking default energy service from Public Service Company of New Hampshire (PSNH or the Company) are billed an energy service rate equal to PSNH's actual, prudent and reasonable costs of providing power, as approved by the Commission. PSNH's energy service rate is a fixed rate that is in effect for a calendar year, although PSNH may request a mid-year adjustment.

On September 15, 2014, PSNH filed a proposal to establish its default energy service rate to take effect with service rendered on and after January 1, 2015. With its filing, PSNH filed the supporting testimony of Christopher J. Goulding, Manager of Revenue Requirements for PSNH,

and Christopher A. Plecs, Manager of Forecasting for Northeast Utilities Service Company (NUSCO). NUSCO is the service company for Northeast Utilities and its affiliates, including PSNH.

In its filing, PSNH provided an initial estimate of 9.61 cents per kilowatt-hour (kWh), a decrease from the current rate of 9.87 cents per kWh. PSNH stated that it would update its final estimate of the rate prior to the hearing to reflect the most recent actual costs and the updated fuel and energy costs.

On September 18, 2014, the Office of Consumer Advocate (OCA) filed a letter of participation pursuant to RSA 363:28. Following a prehearing conference on October 31, the Commission approved a procedural schedule with a hearing on December 18, 2014. Pursuant to the procedural schedule, PSNH filed an update of its proposed 2015 energy service rate on December 15, 2014.

II. POSITIONS OF THE PARTIES AND STAFF

A. PSNH

Mr. Goulding testified that the Commission set the current energy service rate of 9.87 cents per kWh in Order No. 25,683 (June 27, 2014). The rate consists of a 8.89 cents per kWh in energy service costs, and a temporary rate of 0.98 cents to recover costs related to the wet flue gas desulphurization unit (Scrubber) installed at Merrimack Station. The Commission approved the temporary Scrubber rate in Docket No. DE 11-250. *See* Order No. 25,346 (April 10, 2012). Based on PSNH's preliminary calculations, Mr. Goulding said that for the period of January 1 through December 31, 2015, PSNH's prudent and reasonable costs of providing service were expected to result in an energy service rate of 9.61 cents per kWh, which would include the temporary Scrubber rate of 0.98 cents per kWh.

Mr. Goulding testified that the major cost categories comprising the energy service costs are revenue requirements for owned generation assets and the costs of purchased power obligations, the fuel costs associated with PSNH's generation assets, the costs of supplemental energy and capacity purchases, certain Independent System Operator-New England (ISO-NE) ancillary service charges, the cost of compliance with the New Hampshire Renewable Portfolio Standard (RPS) (RSA 362-F), and PSNH's cost of complying with the Regional Greenhouse Gas Initiative (RGGI) (RSA 125-O:19 *et seq.*). The generation revenue requirements include non-fuel costs of generation, including non-fuel operation and maintenance costs, allocated administrative and general costs, depreciation, property and payroll taxes, and a return on the net fossil hydro investment.

PSNH included Independent Power Producer (IPP) generation as a source of power to meet PSNH's load requirements. According to PSNH, the IPP power costs are based on projected market costs for energy and capacity. PSNH explained that over-market costs of purchases from the IPPs are recovered through Part 2 of the stranded cost recovery charge (SCRC). As market prices change, the value of IPP purchases recovered through the energy service rate also changes. At the same time, however, there is a corresponding change to the SCRC for the above-market value of IPP purchases. To properly match the recovery of IPP costs, PSNH said it had separately filed for a change in the SCRC for effect on January 1, 2015 (Docket No. DE 14-235). PSNH's filing in this docket also included costs associated with the Berlin Station wood plant pursuant to a contract approved by the Commission in Order No. 25,213 (April 18, 2011) in Docket No. DE 10-195. Under that contract, capacity and energy produced by the Berlin Station are recovered solely through PSNH's energy service rate.

PSNH said that Newington Station would participate in the Oil Fuel Service component of ISO-NE's Winter Reliability Program. To qualify, participants need at least 10 days of full-burn (24 hours/day) in inventory on December 1 (approximately 160,000 barrels for Newington). Payments will be limited to 15 days of full-burn, or approximately 240,000 barrels for Newington. The Company noted that there are penalties for lost availability of units during December through February. Under the Winter Reliability program, payments of \$18 per barrel will be based on the lesser amount of oil in inventory on December 1, 2014, or March 1, 2015.

PSNH estimated the cost allocation to PSNH's energy service customers to be approximately \$2.4 million. According to PSNH, the cost allocation would occur regardless of PSNH's participation in the program. PSNH estimated revenues of approximately \$2.8 million from the Winter Reliability program for the three-month period December 2014 through February 2015, resulting in a net benefit to energy service customers of approximately \$400,000.

In its initial filing, PSNH used the then-current migration rate of 50.2% in calculating the 2015 energy service rate. Mr. Plecs testified that, pursuant to Order No. 25,614 (Dec. 27, 2013) in PSNH's prior energy service docket, PSNH prepared a forecast of migration rates. Mr. Plecs explained that PSNH developed its forecast using econometric modeling techniques that included the evaluation of historical migrated load as a function of competitive suppliers' prices of electricity. Using this methodology, Mr. Plecs forecast an average migration rate of 55.7% for 2015.

As noted above, PSNH filed an updated calculation of its proposed 2015 energy service rate on December 15, 2014. The update resulted in an estimated energy service rate of 10.56 cents per kWh for effect on January 1, 2015, an increase of 0.95 cents per kWh from the initial filing. (The rate included the temporary recovery of Scrubber costs at a rate of 0.98 cents

per kWh.) PSNH attributed the higher rate to the net effects of an increase in under-recoveries, an increase in fuel costs, and a decrease in forecasted retail sales resulting from customer migration.

PSNH testified that it recovered \$13 million less than expected in August, September, and October 2014 due to higher actual customer migration to competitive supply. The estimated increase in fuel costs was \$11 million and was based on the forward electricity prices forecast for the early months of 2015. The decrease in sales was 163 GWh, approximately 1.4%, which resulted in part from higher forecast electricity prices.

In addition, using the same methodology presented in its initial filing, PSNH updated its forecasted customer migration rate. The revised rate used in the final filing resulted in a customer migration forecast rate of 51.7%. PSNH updated the forecasted migration rate to take into account increased reverse migration expected for certain months in 2015. PSNH used the updated customer migration rate in the calculation of rates in its December 15, 2014 filing. According to the Company, the lower sales also had the effect of somewhat lowering its 2015 RGGI and RPS compliance costs. PSNH said it expected that the use of a customer migration forecast would mitigate future under-recoveries and over-recoveries by more accurately forecasting energy load.

PSNH testified that it used the electricity price forecast of November 20, 2014, to estimate the rate in its December filing. PSNH acknowledged at hearing that price forecasts for January 2015 had decreased by about \$20.00 per megawatt-hour since November 20, 2014. PSNH testified that, overall, had it used the updated forecast, prices for 2015 would have been reduced by about 11%, or about 0.25 cents per kWh. PSNH said that it used the November 20

forecast in order to have sufficient time to prepare all the calculations and exhibits associated with this filing.

Staff asked a question regarding PSNH's use of 45 day lag time to calculate its working capital. PSNH was unable to answer the question at the hearing so the Commission accepted the question as a record request and designated it as Exhibit 4. The Commission ordered the Company to provide Exhibit 4 by December 31, 2014.

PSNH concluded that its filing, as updated on December 15, 2014, is consistent with Commission orders and that the resulting rates are just and reasonable. PSNH requested that the Commission approve the rates for effect with service rendered on and after January 1, 2015.

B. OCA

The OCA expressed support for PSNH's use of a customer migration forecast because the effect should be a reduction in under-recoveries. The OCA suggested that it would be advisable for PSNH to further update their filing to take advantage of the lower forecast electricity prices.

C. Staff

Staff said that it had reviewed the filing and determined that PSNH had developed the proposed energy service rates consistent with Commission order and that the resulting rates were consistent with RSA 369-B:3, IV(b)(1)(A), and were just and reasonable. Staff said that while it would be desirable to update the estimates to the most recent forecast, the update may not be something that can be accomplished by the Company within the given time frame.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV(b)(1)(A), the price of PSNH's energy service shall be its "actual, prudent and reasonable costs of providing such power, as approved by the commission."

Because PSNH is entitled to recover its actual costs of providing power and those costs cannot be known prior to providing that power, the Commission has adopted a two-step process for setting energy service rates. The first step, which is determined in this docket, is based on an estimate of future costs for the following calendar year. The second step, which occurs after the power has been produced, or purchased and delivered, involves reconciling the estimated rate with the actual costs and reviewing the prudence of those costs.

PSNH has requested an energy service rate of 10.56 cents per kWh for effect with service rendered on and after January 1, 2015, and the Company has provided supporting data and documentation that demonstrates that the rate was correctly calculated.

Therefore, we find that PSNH's proposed energy service rate for effect with services rendered on and after January 1, 2015, is just and reasonable as required by RSA 378, and we will allow the rate to go into effect. We understand that, combined with other rates, the monthly bill impacts for customers using 625 kWh of electricity per month, the average residential customer use, will be an increase in rates from \$111.50 per month to \$118.33 per month; however, the rates appear to be cost-based.

We agree with the OCA that using a thoughtful migration forecast will produce better information for the Company and we encourage it to continue to do so. In addition, we believe it is reasonable for the Company to use a price forecast in developing its energy service rate calculation, and we direct PSNH to continue to use the forecast in subsequent filings. We understand that, if PSNH had used a more recent electricity price forecast than that of November 20, 2014, the resulting default service rate would be somewhat lower. There is some question, however, whether those lower market power costs will actually occur, or whether the power costs will end up being closer to PSNH's forecast. We understand that this uncertainty is

the nature of forecasting. Nonetheless, we find that it is appropriate for PSNH to meet with Staff and the OCA to determine if the Company can use a more current forecast when it develops its final energy service rates in future proceedings.

Based upon the foregoing, it is hereby

ORDERED, that PSNH's request to increase its energy service rate to 10.56 cents per kWh as contained in its December 15, 2015, update for effect with service rendered on and after January 1, 2015, is hereby APPROVED; and it is

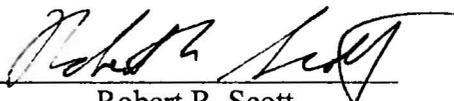
FURTHER ORDERED, that PSNH shall meet with Staff and OCA to discuss whether the Company should use a more recent forecast in developing its rate estimate in the future; and it is

FURTHER ORDERED, that PSNH shall file tariffs conforming to this Order consistent with New Hampshire Admin. Rules Puc 1600.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of December, 2014.



Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director