



**Public Service
of New Hampshire**

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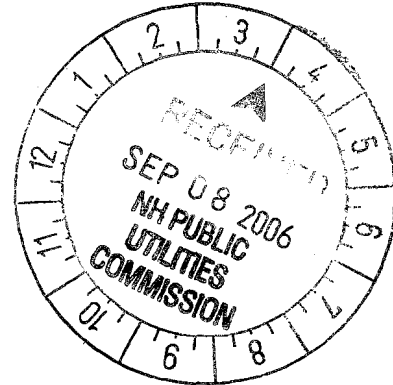
The Northeast Utilities System

Gerald M. Eaton
Senior Counsel

E-Mail: eatongm@psnh.com

September 8, 2006

Debra A. Howland
Executive Director and Secretary
State of New Hampshire
Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429



Re: Proposed Default Energy Service and Default Energy Service Rate
Docket No. DE 06-XXX

Dear Ms. Howland:

Enclosed please find an original and eight copies of the testimony and attachments of Robert A. Baumann containing an estimate and supporting documentation for a Default Energy Service rate applicable to PSNH's customers who take service under Default Energy Service Rate D on and after January 1, 2007.

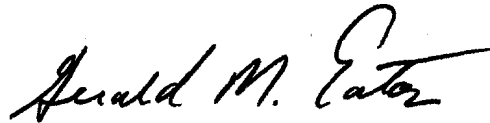
Pursuant to RSA 369-B:3, IV(b)(1)(A), customers who take Default Energy Service from PSNH will be billed a Default Energy Service ("ES") rate equal to PSNH's actual, prudent and reasonable costs of providing the power, as approved by the Commission. Based upon the data contained herein, PSNH currently estimates an ES rate for effect on January 1, 2007 of 8.94 cents per kilowatt-hour. This change would reflect an average increase of 5.7 % to overall rates assuming the current ES rate of 8.18 cents per kilowatt-hour remains unchanged for the remainder of the year.

As in the case of the last proceeding, PSNH anticipates that the proposed ES rate will be revised during the course of this proceeding to incorporate the most recent estimates of fuel and energy prices. PSNH's requested rate will be based upon this revised estimate and supporting documentation filed prior to the final hearing on the merits and will reflect any over or under recovery of ES for 2006. As required by Order No. 24,644 in Docket No. DE 05-164, PSNH includes the testimony of Stephen R. Hall addressing the design of an anti-gaming proposal for review and possible implementation on January 1, 2007.

Debra A. Howland
Public Utilities Commission
September 8, 2006
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PSNH requests that the Commission open a docket and schedule a pre-hearing conference so that a procedural schedule can be established that will provide for an order by the Commission in sufficient time to enable the new Default Energy Service rate to take effect January 1, 2007.

Sincerely,

A handwritten signature in black ink, reading "Gerald M. Eaton". The signature is written in a cursive style with a large, stylized "E" at the end.

Gerald M. Eaton
Senior Counsel

Enclosures
cc: Service List

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Docket No. DE 06-XXX

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THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
PREPARED TESTIMONY OF
ROBERT A. BAUMANN
Docket No. DE 06-XXX

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 Regulation & Load Resources for Northeast
4 Utilities Service Company (NUSCO). NUSCO provides centralized services to the
5 Northeast Utilities (NU) operating subsidiaries, including Public Service Company of
6 New Hampshire (PSNH), The Connecticut Light and Power Company, Yankee Gas
7 Services Company, Western Massachusetts Electric Company and Holyoke Water
8 Power Company.

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

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

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

12 A. The purpose of my testimony is: (1) to provide an overview of this filing; and (2) to seek
13 the necessary approvals to set the Default Energy Service rate applicable to PSNH's
14 customers who take service under Rate DE that will take effect on January 1, 2007. As
15 required by Order No. 24,644 in Docket No. DE 05-164, PSNH is also filing the
16 testimony of Stephen R. Hall addressing the design of an anti-gaming proposal for
17 review and possible implementation on January 1, 2007.

1 **Q. Please describe the ratemaking framework that began on May 1, 2001.**

2 A. On May 1, 2001, PSNH began to recover costs under the "Agreement to Settle PSNH
3 Restructuring" (Restructuring Settlement). Under the terms of the Restructuring
4 Settlement, PSNH recovers its cost of providing service to customers through three
5 major components of its rates: the Delivery Charge, the Stranded Cost Recovery
6 Charge, and the Energy Service rate (Transition Energy Service and Default Energy
7 Service).

8 The table below outlines Energy Service (ES) rates in effect from May 1, 2001 to the
9 present for residential, small commercial and industrial customers (Group 1) and large
10 commercial and industrial customers (Group 2).

<u>Date of Service</u>	<u>(Small)</u> <u>Group 1</u> cents per kWh	<u>(Large)</u> <u>Group 2</u> cents per kWh
May 2001 - January 2003	4.40	4.40
February 2003 - January 2004	4.60	4.67
February 2004 - July 2004	5.36	5.36
August 2004 - January 2005	5.79	5.79
February 2005 - July 2005	6.49	6.49
August 2005 - January 2006	7.24	7.24
February 2006 - June 2006	9.13	9.13
July 2006 - December 2006	8.18	8.18

11 Initially, ES rates were set by statute. Beginning in February 2003, the ES rate for large
12 commercial and industrial customers (Group 2) was based on PSNH's forecast of
13 "actual, prudent and reasonable costs." Beginning in February 2004, the ES rate for all
14 retail customers was based on a forecast of PSNH's "actual, prudent and reasonable
15 costs."

1 In its initial decision in Docket No. DE 03-175 (Order No. 24,252), the Commission
2 reiterated its desire to avoid ES cost deferrals. As a way to minimize these deferrals, the
3 Commission provided any interested party with the option of making an interim ES rate
4 filing in July, with the objective of setting a revised ES rate effective on August 1.

5 This process was continued for the 2006 ES rate filing. A rate was set for effect on
6 February 1, 2006 of 9.13 cents per kilowatt hour. (Docket No. DE 05-164, Order
7 No. 24,579). PSNH again filed a request for an interim ES rate in May 2006 to become
8 effective July 1, 2006. A rate adjustment was granted by the Commission (Docket
9 No. DE 05-164, Order No. 24,644) resetting the ES rate from 9.13 cents per
10 kilowatt-hour to 8.18 cents per kilowatt-hour for all customer classes for the period
11 July - December 2006.

12 In this proceeding, PSNH is requesting that the Commission determine an updated,
13 single ES rate for all customers effective January 1, 2007, based on a forecast of
14 PSNH's costs of providing such power.

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

A. No, we are not. In prior ES proceedings, the Commission has required PSNH to utilize market forecast information that is current as of the hearing date. In light of that precedent and the continued price volatility in the energy markets, at this time PSNH is supplying operational data concerning its own generation as well as for existing power purchase obligations (such as IPPs). PSNH will formally propose an ES rate, and

1 provide a rate calculation based on updated market information, prior to the anticipated
2 hearing in November 2006. This updated filing will use the same calculation
3 methodologies as in previous proceedings and will also reflect any ES over or under
4 recovery from 2006.

5 **Q. Has PSNH performed a preliminary calculation of what its projected, prudent, and**
6 **reasonable costs of providing Energy Service will be from January 1, 2007**
7 **through December 31, 2007?**

8 A. Yes. PSNH has made a preliminary calculation of the ES rate using the latest available
9 information. As shown on Attachment RAB-1, for the period from January 1, 2007
10 through December 31, 2007, PSNH's prudent and reasonable costs of providing ES is
11 projected to be 8.94 cents per kWh.

12 **Q. Why is the preliminary ES rate calculation of 8.94 cents per kWh greater than the**
13 **current ES rate of 8.18 cents which was set in July 2006?**

14 A. The July – December 2006 ES rate of 8.18¢ kWh is lower because it includes an
15 estimated \$36.3 million credit due to a ES overrecovery variance that accrued during the
16 period February – June 2006..

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

19 A. As a result of electric industry restructuring, customers may choose their source of
20 generation service. PSNH's customers may obtain generation service from an approved
21 competitive energy supplier, or they may choose to continue to receive their energy from
22 PSNH in the form of Energy Service.

1 Historically, through January 31, 2006, all ES reconciliation amounts (over or under
2 recoveries) were applied against Part 3 stranded costs. With the full recovery of Part 3
3 costs in June 2006, all ES reconciliation amounts effective with ES recovery beginning
4 February 1, 2006, are no longer applied to Part 3 stranded costs. Any ES reconciliation
5 amounts beginning in February 2006 are now being deferred and will be applied to
6 future ES rate recoveries per the Commission's order and findings in Docket No.
7 DE 05-164, Order No. 24,579, dated January 20, 2006.

8 **Q. Describe the costs that PSNH includes in its ES rate?**

9 A. ES costs contain the generation asset revenue requirements, entitlements and
10 purchased power obligations. In addition, ES costs include the fuel costs associated
11 with PSNH's generation as well as costs and revenues from market purchases and sales
12 of electricity and ISO-NE expenses and revenues. The generation revenue
13 requirements include non-fuel costs of generation, including non-fuel operation and
14 maintenance costs, allocated administrative and general costs, depreciation, property
15 taxes and payroll taxes, and a return on the net fossil/hydro investment. Detailed
16 monthly information on the cost of generation is included in Attachment RAB-2.

17 **Q. How are the PSNH's mandated purchased power obligations (IPPs) valued in**
18 **calculating the Energy Service rate?**

19 A. PSNH includes the IPP generation as a source of power to meet the PSNH's load
20 requirements, and that power is valued based on projected market costs (energy and
21 capacity) as shown on Attachment RAB-2, page 4. The over-market portion of
22 purchases from the IPPs are considered to be a stranded cost and recovered as a Part 2

1 cost through the Stranded Cost Recovery Charge. This treatment is consistent with the
2 Restructuring Settlement and the Commission's Order in Docket DE 02-166. Because
3 of the manner in which PSNH estimates its above-market IPP costs, it is important that
4 the SCRC rate be synchronized with the establishment of the ES rate. That way, in the
5 event that the estimated market prices are incorrect, there will be an overrecovery in one
6 component of PSNH's rates that is completely offset by an underrecovery in the other
7 component. As such, PSNH will update its SCRC rate to be charged beginning
8 January 1, 2007, consistent with the change to the ES rate.

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

10 A. Yes, if a rate adjustment is deemed necessary, PSNH (or any interested party) could file
11 a petition a month prior to the beginning of the second half of the Energy Service Year
12 requesting a change in the Energy Service rate effective the second half of the Energy
13 Service Year. The Commission would revisit the rate in an abbreviated investigation.
14 PSNH agrees to submit actual and estimated data on a date specified by the
15 Commission to allow the parties and Staff to address the need for an interim adjustment
16 during the 2007 Energy Service Year.

17 **Q. Please describe the detailed support for the calculation of the ES rate provided in**
18 **Attachment RAB-2.**

19 A. Attachment RAB-2 provides detailed cost and revenue components relating to PSNH's
20 generating costs, and also provides a breakdown of market purchases and sales.
21 Page 3 of the attachment provides further detail relating to the energy simulation for the

1 period January 1, 2007 through December 31, 2007. Page 4 provides further detail on
2 the forecast market value of IPP generation, page 5 provides a breakdown of
3 Fossil/Hydro costs and page 6 provides a detailed calculation of the return on
4 Fossil/Hydro investment.

5 **Q. Does PSNH propose to implement the new ES rates on a bills-rendered basis?**

6 A. Yes. PSNH proposes implementation of the new ES rates for all customers on a
7 bills-rendered basis, consistent with the methodology used for all such rate changes in
8 prior years.

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

10 A. Yes, PSNH would need final approval of the proposed Energy Service rate by
11 December 29, 2006, in order to implement the new rate for bills rendered as of
12 January 1, 2007. Therefore, PSNH requests that the Commission commence a
13 proceeding so that the procedural schedule can be set to review this filing and approve
14 the ES rate in a timely manner.

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

16 A. Yes, it does.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

10 Summary of Forecasted Energy Service 11 Cost For January 2007 Through December 2007	TOTAL COST	Reference
12		
13 Fossil energy costs	\$ 206,123	Attachment RAB-2, page 2
14 F/H O&M, Depreciation & Taxes	118,681	Attachment RAB-2, page 2
15 Return on rate base	34,451	Attachment RAB-2, page 2
16 Ancillary, ISO-NE, Uplift & Capacity Costs	50,266	Attachment RAB-2, page 2
17 Vermont Yankee	6,876	Attachment RAB-2, page 2
18 IPP costs (1)	48,353	Attachment RAB-2, page 2
19 Purchases and Sales	265,813	Attachment RAB-2, page 2
20		
21 Total Forecasted Energy Service Cost	\$ 730,563	
22		
23		
24 Forecasted Retail MWH Sales	8,169,970	
25		
26 Forecasted Energy Service Rate -		
27 cents Per KWH (line 21 / Line 24)	8.94	

28 (1) The IPP costs represent the forecasted Market Value of IPP generation.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

	January 2007 Estimate	February 2007 Estimate	March 2007 Estimate	April 2007 Estimate	May 2007 Estimate	June 2007 Estimate	Reference
Energy Service Cost							
Fossil Energy Costs	\$ 33,722	\$ 28,866	\$ 22,685	\$ 8,432	\$ 7,634	\$ 11,794	RAB-2, P3
F/H O&M, Depreciation & Taxes	9,113	8,267	11,103	15,718	11,657	8,216	RAB-2, P5
Return on Rate Base	2,882	2,854	2,819	2,804	2,832	2,875	RAB-2, P6
Ancillary, ISO-NE, Uplift & Capacity Costs	6,573	6,209	5,163	3,716	3,857	3,429	RAB-2, P3
Vermont Yankee	629	568	629	608	365	345	RAB-2, P3
IPP Costs	6,131	5,938	5,632	4,446	4,015	3,699	RAB-2, P4
Purchases and Sales	9,356	8,160	17,272	26,643	28,329	23,630	RAB-2, P3
Total Energy Service Cost	\$ 68,407	\$ 60,862	\$ 65,304	\$ 62,367	\$ 58,689	\$ 53,989	
Forecasted Retail MWH Sales	712,292	633,464	686,607	635,065	647,116	657,835	
Energy Service Cost - cents per kwh	9.60	9.61	9.51	9.82	9.07	8.21	

Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

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	July 2007 Estimate	August 2007 Estimate	September 2007 Estimate	October 2007 Estimate	November 2007 Estimate	December 2007 Estimate	Total	Reference
Energy Service Cost								
Fossil Energy Costs	\$ 22,212	\$ 22,636	\$ 11,794	\$ 12,247	\$ 11,852	\$ 12,247	\$ 206,123	RAB-2, P3
F/H O&M, Depreciation & Taxes	10,734	8,823	9,054	9,225	8,489	8,281	118,681	RAB-2, P5
Return on Rate Base	2,876	2,874	2,875	2,884	2,906	2,970	34,451	RAB-2, P6
Ancillary, ISO-NE, Uplift & Capacity Costs	3,777	3,848	3,353	3,359	3,403	3,578	50,266	RAB-2, P3
Vermont Yankee	629	629	608	629	608	629	6,876	RAB-2, P3
IPP Costs	3,784	3,674	1,972	2,259	2,948	3,851	48,353	RAB-2, P4
Purchases and Sales	23,423	22,877	24,783	24,525	25,416	31,399	265,813	RAB-2, P3
Total Energy Service Cost	\$ 67,436	\$ 65,362	\$ 54,438	\$ 55,129	\$ 55,623	\$ 62,955	\$ 730,563	
Forecasted Retail MWH Sales	747,979	735,152	655,722	675,126	671,437	712,175	8,169,970	
Energy Service Cost - cents per kwh	9.02	8.89	8.30	8.17	8.28	8.84	8.94	

Amounts shown above may not add due to rounding.

PUBLIC SERVICE RATE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION

PSNH Generation (GWh) and Expense (\$000)
IPP's Priced at Market Rate

			Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
2	Hydro:	Energy	29,234	25,683	33,936	39,096	37,138	27,548	19,741	19,015	17,148	23,367	31,505	30,417	333,828
3															
4	Coal:	Energy	329,153	297,300	305,425	231,330	200,071	316,930	327,494	327,494	316,930	329,153	318,535	329,153	3,628,968
5		Energy Expense	\$ 11,739	10,603	10,782	8,270	7,228	11,302	11,678	11,678	11,302	11,739	11,360	11,739	129,420
6															
7	Wood:	Energy	30,132	27,216	30,132	9,599	24,057	29,160	30,132	30,132	29,160	30,132	29,160	30,132	329,144
8		Energy Expense	\$ 1,467	1,325	1,467	467	1,171	1,420	1,467	1,467	1,420	1,467	1,420	1,467	16,026
9		Revenue Credit	(959)	(866)	(959)	(305)	(765)	(928)	(959)	(959)	(928)	(959)	(928)	(959)	(10,473)
10															
11	Nuclear:	Energy	15	14	15	15	9	8	15	15	15	15	15	15	166,187
12		Energy Expense	\$ 629	568	629	608	365	345	629	629	608	629	608	629	6,876
13															
14	Newington:	Energy	231,748	191,563	121,238	0,000	0,000	0,000	105,486	109,924	0,000	0,000	0,000	0,000	759,959
15		Energy Expense	\$ 21,475	17,804	11,395	-	-	-	10,026	10,450	-	-	-	-	71,150
16															
17	IPP's:	Energy	47,844	47,091	53,686	57,380	53,032	46,245	40,804	38,657	24,057	28,351	34,591	38,985	510,723
18		Energy Expense	\$ 5,866	5,673	5,367	4,181	3,750	3,434	3,519	3,409	1,771	2,058	2,747	3,650	45,425
19		ICAP	\$ 265	265	265	265	265	265	265	265	201	201	201	201	2,928
20															
21	Peak Purchase:	Energy	32,091	18,352	30,007	164,239	55,586	83,119	66,634	66,350	77,198	106,615	103,170	116,912	920,273
22		Expense	\$ 4,980	2,787	3,382	13,635	4,510	7,279	6,897	6,918	6,840	8,841	9,485	12,747	88,301
23															
24	Known Purchases	Energy	80,720	73,520	61,120	59,120	205,920	126,320	97,520	99,120	118,320	98,720	92,720	91,520	1,204,640
25		Expense	\$ 8,309	7,615	6,417	6,216	17,338	12,021	9,630	9,894	11,111	9,895	9,301	9,150	116,897
26															
27	Offpeak Purchase:	Energy	4,521	7,937	79,581	99,204	106,833	63,582	95,043	79,183	98,856	85,452	88,686	104,141	913,019
28		Expense	\$ 524	837	7,595	6,804	6,810	4,472	7,167	6,415	6,832	5,789	6,630	9,511	69,386
29															
30	Surplus Energy Sales	Energy	(44,177)	(29,651)	(1,141)	(0,227)	(4,218)	(2,604)	(3,698)	(4,340)	0,000	0,000	0,000	(0,135)	(90,191)
31		(Credit)	\$ (4,457)	(3,079)	(122)	(12)	(329)	(142)	(271)	(350)	0	0	0	(9)	(8,771)
32															
33	Congestion and Loss Adjustment		\$ 2,084	1,722	830	(361)	(223)	94	438	510	(47)	(32)	13	29	5,056
34															
35	Total Energy GWh		756,463	672,737	729,181	674,448	687,243	698,634	794,353	780,732	696,376	716,987	713,074	756,322	8,676,550
36	Total Energy Expense		\$ 51,923	45,255	47,048	39,768	40,121	39,563	50,487	50,326	39,110	39,628	40,837	48,155	532,221
37															
38	Other Expense & Capacity														
39	ISO-NE, Uplift, Reserve & Regulation		\$ 1,901	1,898	1,900	1,629	1,631	1,563	1,566	1,566	1,563	1,519	1,518	1,519	19,773
40	and Ancillary														
41	Newington Capacity Revenue		\$ (142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(142)	(1,704)
42															
43	Capacity (sold)/bought MW-mo		895	895	844	849	849	628	628	628	649	660	660	712	8,899
44	Capacity (sold)/bought Cost (\$000)		\$ 2,731	2,731	2,576	2,591	2,591	1,914	1,914	1,914	1,978	2,014	2,014	2,172	27,140

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION

Forecasted PSNH IPP Market Value

	IPP	IPP at Mkt Value	Capacity	ICAP Value	ICAP	Total	Total
Month	GWh	(\$000)	MW	\$/kw-mo	(\$000)	(\$000)	\$/MWh
Jan. 2007	47.844	5,866	87	3.05	265.0	6,131	128.15
February	47.091	5,673	87	3.05	265.0	5,938	126.10
March	53.686	5,367	87	3.05	265.0	5,632	104.91
April	57.380	4,181	87	3.05	265.0	4,446	77.48
May	53.032	3,750	87	3.05	265.0	4,015	75.71
June	46.245	3,434	87	3.05	265.0	3,699	79.99
July	40.804	3,519	87	3.05	265.0	3,784	92.74
August	38.657	3,409	87	3.05	265.0	3,674	95.04
September	24.057	1,771	66	3.05	201.0	1,972	81.97
October	28.351	2,058	66	3.05	201.0	2,259	79.68
November	34.591	2,747	66	3.05	201.0	2,948	85.22
December	38.985	3,650	66	3.05	201.0	3,851	98.78
Total	510.723	45,425			2,924.0	48,349	94.67

Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION
Fossil / Hydro O&M, Depreciation & Taxes Detail
(Dollars in 000's)

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	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	Total
<u>Fossil / Hydro O&M, Depr. & Taxes</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	
F/H Operation & Maintenance Cost	\$ 6,475	\$ 5,630	\$ 8,311	\$ 13,032	\$ 8,979	\$ 5,532	\$ 8,038	\$ 6,070	\$ 6,335	\$ 6,516	\$ 5,778	\$ 5,585	\$ 86,281
F/H Depreciation Cost	1,900	1,900	1,908	1,916	1,935	1,952	1,955	1,958	1,960	1,966	1,974	1,980	23,300
F/H Property Taxes	608	608	608	639	639	639	639	639	639	639	639	639	7,574
F/H Payroll Taxes	130	129	278	131	105	94	103	157	120	105	98	78	1,526
Total F/H O&M, Depr. and Taxes	\$ 9,113	\$ 8,267	\$ 11,103	\$ 15,718	\$ 11,657	\$ 8,216	\$ 10,734	\$ 8,823	\$ 9,054	\$ 9,225	\$ 8,489	\$ 8,281	\$ 118,681

Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
ENERGY SERVICE RATE CALCULATION
FOSSIL/HYDRO RETURN ON RATE BASE
(Dollars in 000's)

	January 2007 Estimate	February 2007 Estimate	March 2007 Estimate	April 2007 Estimate	May 2007 Estimate	June 2007 Estimate	July 2007 Estimate	August 2007 Estimate	September 2007 Estimate	October 2007 Estimate	November 2007 Estimate	December 2007 Estimate	Total
Return on Rate Base													
Rate base													
Net Plant	245,412	244,013	246,091	247,531	255,349	255,162	254,437	254,075	252,833	254,614	255,086	254,861	
Working Capital Allow. (45 days of O&M)	10,637	10,637	10,637	10,637	10,637	10,637	10,637	10,637	10,637	10,637	10,637	10,637	
Fossil Fuel Inventory	42,550	42,550	42,550	42,550	42,550	42,550	42,550	42,550	42,550	42,550	42,550	42,550	
Mat'l's and Supplies	44,706	41,498	39,761	38,950	38,810	38,902	37,984	39,224	37,177	36,944	35,943	46,953	
Prepaid Property Taxes	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	
Deferred Taxes	(10,155)	(11,840)	(13,587)	(16,163)	(15,721)	(13,994)	(13,876)	(13,587)	(11,376)	(9,639)	(7,577)	(5,576)	
Other Regulatory Obligations	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	(12,011)	
Total Rate Base (L15 thru L22)	323,811	317,519	316,114	314,166	322,287	323,919	322,393	323,560	322,482	325,768	327,300	340,086	
Average Rate Base (prev + curr month)	323,811	320,665	316,816	315,140	318,227	323,103	323,156	322,977	323,021	324,125	326,534	333,693	
x Return	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	0.8899%	
Return (L25 x L26)	\$ 2,882	\$ 2,854	\$ 2,819	\$ 2,804	\$ 2,832	\$ 2,875	\$ 2,876	\$ 2,874	\$ 2,875	\$ 2,884	\$ 2,906	\$ 2,970	\$ 34,451

Amounts shown above may not add due to rounding.

**THE STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITIES COMMISSION
DIRECT TESTIMONY OF
STEPHEN R. HALL
Docket No. DE 06-XXX**

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
3 North Commercial Street, Manchester, New Hampshire. I am Rate and
4 Regulatory Services Manager for Public Service Company of New Hampshire
5 ("PSNH").

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

7 A. Yes, I have testified on numerous occasions before the Commission over the past
8 twenty five years.

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

10 A. The purpose of my testimony is to present PSNH's proposal for an "anti-gaming"
11 mechanism for the Commission to consider for implementation as part of PSNH's
12 Energy Service rate. In its Order No. 24,644 dated June 30, 2006 in Docket No.
13 DE 05-164, the Commission stated:

14 "Finally, given the size of the overrecovery to date, the lack of any
15 restrictions on migration to or from Energy Service and the likelihood that
16 some customers will have more ability than others to change suppliers, we
17 are concerned about the potential for what some characterize as "gaming"
18 – i.e., the strategic migration to and from PSNH's Energy Service so as to
19 take advantage of price fluctuations in a manner that imposes unfair
20 recovery burdens on customers that may be unable to migrate due to such
21 factors as the lack of competitive suppliers serving their market segment.

1 We note that other jurisdictions have addressed this issue in similar
2 circumstances. Thus we instruct PSNH to include an anti-gaming
3 proposal in its proposal for the Energy Service rate that will be effective
4 on January 1, 2007.”

5 **Q. How do you define gaming?**

6 A. Gaming occurs when a supplier uses PSNH as a backstop or hedge for its energy
7 costs during those months when the marginal cost of energy is at its highest. A
8 simple example illustrates how gaming can occur. Let’s assume that PSNH’s
9 energy rate is 8.5¢ per kWh for a particular period. Let’s further assume that a
10 supplier can procure power and provide it to a customer for 8.2¢ per kWh for the
11 first three months, 10.5¢ per kWh for the next 2 months, and 8.4¢ per kWh for the
12 last month of a particular six-month period. The average price at which the
13 supplier could offer power to a customer for that period would be 9.0¢, assuming
14 that the customer wanted a fixed price for the entire period. Under this scenario,
15 the customer would not enter into an agreement with a supplier because PSNH’s
16 price during the period would be less than what the supplier could offer, due
17 primarily to the two high cost months. Under this circumstance, a supplier could
18 offer an arrangement to a customer whereby the supplier had the option of placing
19 the customer back on PSNH’s energy service during the two high cost months and
20 making the customer whole for the difference in cost. With that option, the
21 supplier’s cost becomes 8.33¢ on average: 8.2¢ for the first three months; 8.5¢
22 (the cost of PSNH’s Energy Service) for the next two months; and 8.4¢ for the

1 last month. The supplier would require the customer to take service from PSNH
2 during the two high cost months, and would pay the customer the 0.17¢ per kWh
3 difference between the contract price of 8.33¢ and PSNH's Energy Service rate of
4 8.5¢. The customer would receive energy at a price of 8.33¢ in all months after
5 receiving the credit from the supplier in the two months that the supplier required
6 to the customer to take energy service from PSNH. The supplier would benefit as
7 long as the margin that they received on the sale in the other months exceeded the
8 cost that they incurred for the difference paid to the customer in the months that
9 the customer received Energy Service from PSNH

10 **Q. If both the supplier and the customer are better off, how does any harm**
11 **occur?**

12 A. The harm occurs to all other customers who take energy service from PSNH. The
13 reason that the harm occurs is that PSNH would be required to serve the returning
14 customer's load during the two months when the marginal cost of energy is the
15 highest (and, in fact, higher than the average rate that PSNH would bill the
16 returning customer for its energy service). This situation would produce an
17 underrecovery of PSNH's energy costs which would be recovered from all of its
18 energy service customers in a subsequent period.

19 **Q. Is frequent migration of a customer to and from PSNH's energy Service**
20 **gaming?**

1 A. Not necessarily. PSNH does not consider it to be gaming when a customer takes
2 advantage of short-term market swings and migrates to and from the market.
3 Gaming only occurs when one supplier attempts to take advantage of PSNH's
4 lower average price in specific months by having the option of requiring the
5 customer to return to PSNH during those months.

6 **Q. In your opinion, is an anti-gaming mechanism necessary?**

7 A. Not at this time. Thus far, PSNH has not observed a prevalence of actions that it
8 would consider to be gaming. Customer migration to the competitive market has
9 only recently become active. From February 2006 through September 2006, 135
10 customers ceased taking energy service from PSNH and began taking energy
11 service from the competitive market (either from a competitive supplier or
12 through self-supply), with the bulk of the migrations occurring in the months of
13 February through June. During that time, only four customers returned to PSNH
14 then subsequently returned to the same previous competitive supplier within six
15 months.

16 **Q. Do you have any concerns about implementation of an anti-gaming**
17 **proposal?**

18 A. Yes, I do. The primary concern is that any anti-gaming mechanism should not be
19 so draconian that it has an effect on the customer's decision to receive energy
20 service from a competitive supplier. If the mechanism is extremely onerous or

1 could potentially cost the customer money, then customers could be reluctant to
2 enter the competitive market to begin with out of fear that if they had to return to
3 PSNH, there would be a financial penalty. The mechanism needs to be sufficient
4 to preclude the most blatant gaming efforts, while at the same time remaining
5 innocuous enough that it doesn't influence the customer's decision to take service
6 from the competitive market.

7 **Q. What type of mechanism do you propose?**

8 A. If the Commission decides to implement an anti-gaming mechanism, PSNH
9 proposes that the mechanism be very simple: any customer who is taking power
10 from a competitive supplier who then returns to Energy Service from PSNH
11 would be precluded from taking service from the same competitive supplier for a
12 period of six months from the date that the customer resumes taking Energy
13 Service from PSNH.

14 **Q. Why would you propose that the customer not be allowed to return to the**
15 **same supplier for a period of six months?**

16 A. If a customer could not return to the same supplier for a period of six months, the
17 supplier would not be able to utilize PSNH as a backstop for a few months where
18 the marginal cost of energy might be high. Beyond this, PSNH's Energy Service
19 rate is subject to change every six months. Therefore, by imposing a six-month
20 "moratorium" on returning to the same supplier, the supplier would have more

1 difficulty predicting what PSNH's Energy Service rate might be for the time
2 period when the customer was taking Energy Service from PSNH. This situation
3 would make any strategy to compensate customers for the difference in cost more
4 risky for the supplier due to the unknown amount they might have to pay to the
5 customer. Finally, the six-month time frame is short enough that it would allow
6 the customer to return to the supplier within a relatively short time frame and
7 therefore would not have a negative impact on the customer's decision making
8 process.

9 **Q. Would a customer be precluded from returning to PSNH and subsequently**
10 **commencing service from a different competitive supplier within six months?**

11 A. No, they would not. In order to provide a reasonable opportunity for a customer
12 to participate in the competitive market, it's essential that the customer be allowed
13 to continue to exercise their choice of supplier. With this proposal, I am
14 attempting to balance the objective of allowing full choice with the need to
15 provide some form of protection to all other customers in the event that gaming
16 might occur. Any anti-gaming provision should not require PSNH or the
17 Commission to discern the customer's motive for leaving or returning to PSNH's
18 Energy Service. A limited restriction on the customer's returning to the same
19 competitive supplier for a period of six months is an objective standard and is
20 fairly easy to administer.

1 **Q. You stated earlier that you hadn't observed any gaming. If the Commission**
2 **decided to continue to monitor the situation rather than adopt a proposal at**
3 **this time, could PSNH provide periodic updates to the Commission on the**
4 **status of customers switching activities?**

5 A. Yes, we could. PSNH could provide information that showed the number of
6 customers in the competitive market for a particular period, the number who
7 entered the competitive market during the period, the number of customers
8 returning to PSNH Energy Service, and the number of customers who
9 subsequently returned to the market after returning to PSNH. PSNH could also
10 track whether those customers who returned to the market returned to the same
11 supplier or to a different supplier. This information could be helpful in
12 determining whether a gaming problem exists.

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

14 A. Yes, it does.