

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 06-125

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Energy Service Charge

Order Approving Petition as Amended

ORDER NO. 24,768

June 29, 2007

Appearances: Gerald M. Eaton, Esq. on behalf of Public Service Company of New Hampshire; Nicholas J. Lazos, Esq. of Stebbins, Lazos and VanDerBeken on behalf of Freudenberg-NOK General Partnership; Sarah B. Knowlton, Esq. of McLane, Graf, Raulerson & Middleton on behalf of Constellation NewEnergy, Inc.; Office of Consumer Advocate by Meredith A. Hatfield, Esq. on behalf of residential ratepayers; and Suzanne Amidon, Esq. on behalf of the Commission Staff.

I. PROCEDURAL HISTORY

On May 18, 2007, Public Service Company of New Hampshire (PSNH) filed a petition requesting a reduction to the company's default energy service rate for Rate D customers. As filed, the adjustment would have decreased the rate from \$0.0859 per kilowatt-hour (kWh) to \$0.0788 per kWh. The company requested that the decrease be effective for bills rendered on or after July 1, 2007. In support of the petition, PSNH filed testimony, with supporting documentation, of Robert A. Baumann, director of revenue regulation and load resources for Northeast Utilities Service Company (NUSCO). NUSCO provides centralized services to the Northeast Utilities operating subsidiaries, including PSNH.

Through Order No. 24,714 (December 15, 2006), issued previously in this docket, the Commission approved PSNH's energy service rates for calendar year 2007. In prior energy service proceedings, the Commission has approved a twelve-month energy service rate, and

allowed any party to request a mid-term adjustment to the rate to avoid large over- or under-recoveries. PSNH filed the pending petition consistent with that past practice.

The Commission issued an order of notice on May 31, 2007. On June 4, 2007, Freudenberg-NOK General Partnership (Freudenberg), a manufacturing company that is a customer of PSNH, filed a request to intervene.¹ A hearing was held on June 21, 2007 as scheduled. The Commission granted Freudenberg's motion to intervene at hearing.

II. POSITIONS OF THE PARTIES

A. Public Service Company of New Hampshire

Pursuant to RSA 369-B:3, IV(b)(1)(A), the price for PSNH's default energy service (referred to by PSNH as its "energy service" rate) must allow for recovery of PSNH's actual, prudent, and reasonable costs of providing the power, as approved by the Commission. As explained in testimony, the PSNH energy service rate is based on a forecast of costs, and is reconciled once actual costs are known.

According to Mr. Baumann, PSNH's costs for energy service contain the generation asset revenue requirements, entitlements and purchased power obligations as well as the fuel costs associated with PSNH's generation, costs and revenues from market purchases and sales of electricity, and expenses and revenues charged to PSNH by the regional grid operator, ISO New England. Mr. Baumann stated that the generation revenue requirements include non-fuel costs of generation, including non-fuel operation and maintenance costs, allocated administrative and

¹ Earlier in the proceeding, the Office of Consumer Advocate (OCA) had entered an appearance on behalf of residential ratepayers. Also, Constellation NewEnergy, Inc. (Constellation) had previously been granted intervenor status.

general costs, depreciation, property taxes and payroll taxes, and a return on the net investment in generation facilities.

PSNH stated that the types of costs included in this energy service filing are consistent with past energy service filings with one exception. Consistent with the terms of a settlement agreement approved by the Commission in Order No 24,750 (May 25, 2007), PSNH included the energy service-related portion of uncollectible accounts expense in its projection of energy service costs for the period July through December 2007. As the forecast period comprises six months, PSNH stated that it included \$1.015 million of uncollectible accounts expense, 50 percent of the annual amount of \$2.030 million noted in the settlement agreement, in its cost calculations.

PSNH stated that the current energy service rate took effect January 1, 2007 for the twelve month period from January through December 2007, as approved in Order No. 24,714 (December 15, 2006). PSNH testified that since the Commission issued Order No. 24,714,, market prices have decreased. In its filing, PSNH asserted that this decrease, combined with other operational issues that have lowered the cost of energy service, created a projected over-recovery of \$27.1 million. In his pre-filed testimony, Mr. Baumann stated that this sum consisted of an actual over-recovery of \$25.2 million through April 2007 and a projected over-recovery of \$1.9 million for the period May through December 2007. At hearing, Mr. Baumann revised his testimony based on actual data for May 2007 and testified that the updated estimate of the over-recovery was \$29.1 million. As a result, the proposed rate effective for July 1, 2007 was reduced from \$0.0788 per kWh to \$0.0783 per kWh. Mr. Baumann testified that this rate change constituted a reduction of about 5.5 percent in a typical residential customer's monthly electric

bill for a customer using an average of 630 kilowatt-hours (kWh) per month. However, when the decrease in the energy service charge is combined with July 1st changes to other rate components that have either been approved or are pending before the Commission – namely, distribution rates, stranded cost recovery charge and transmission cost adjustment factor – residential rates would increase by 0.07 percent.

Mr. Baumann testified that the rate decrease in energy service costs could be attributed in part to migration of large customers to competitive suppliers. According to PSNH, at the beginning of 2007 about 40 megawatts of PSNH's large commercial customer load was served by competitive suppliers. PSNH further stated that, based on peak demand, the amount of its large customers' power requirements that was served by competitive supply soon increased to about 125 megawatts, or 9 percent of PSNH's total load. Recently, PSNH testified, about 40 megawatts has returned to PSNH's default service energy supply. PSNH stated that 85 megawatts of power represents about 5 to 6 percent of its total load.

In response to an inquiry by Staff, PSNH testified that, following its recent conversion of one of the three boilers at Schiller Station in Portsmouth from a coal-burning facility to one that uses wood fuel, the actual revenues related to the operation of the boiler had exceeded projections because revenues from the sale of renewable energy credits in other states exceeded anticipated targets. In addition, PSNH was also receiving production tax credits that were not factored into the original analysis of the economics of the plant conversion. Mr. Baumann said that customers benefit from these revenues because they offset expenses.

PSNH noted that the Commission's prior order in this docket called on Staff, Constellation and PSNH to work together to develop a proposal for competitive energy suppliers

to report to the Commission regarding the total amount of PSNH customer load that suppliers have under contract for an upcoming year. The purpose of such reporting would be to provide information that would help PSNH plan its supplemental power purchases as well as to inform the Commission more fully as to the state of the competitive market. According to PSNH, it was working with Staff and Constellation on such a proposal, and had provided the OCA with a copy of the proposal. PSNH stated that the group would make a recommendation to the Commission but that such a recommendation would not be filed before the anticipated date of this order..

B. Freudenberg-NOK General Partnership

Freudenberg stated that it is a large manufacturing employer that takes electric service from PSNH's delivery facilities. Freudenberg stated that it had taken energy service from PSNH until May 2006 when it chose a competitive supplier that offered energy service at a lower rate than PSNH. Due to PSNH's recent rate filings, Freudenberg indicated that it was returning to PSNH energy service because of the lower rates offered by PSNH.

Freudenberg's statement focused on PSNH's over-recovery in this docket. First, Freudenberg suggested that allowing PSNH to reduce its energy service rate by applying over-recoveries creates artificially low rates and discourages retail competition and the entry of new competitors to the New Hampshire market. Freudenberg also objected to the credits being applied to customers on a prospective, bills-rendered basis. According to Freudenberg, the Commission should require PSNH to determine the credit attributable to large customers on a monthly basis and distribute the credit to such customers in the immediately ensuing bill. Freudenberg contended that, if its approach were adopted, large customers would be able to base their choice of supply on the most recently available information. Accordingly, Freudenberg

asked the Commission to direct Staff to conduct an investigation into the status of energy service competition in the state and to direct PSNH to modify its allocation of credits with respect to large commercial customers.

C. Constellation NewEnergy, Inc.

Constellation took no position on PSNH's petition. Constellation echoed PSNH's comments regarding the development of reporting requirements for competitive energy suppliers and stated that it would continue to work with PSNH and Staff to develop a recommendation for the Commission.

D. Office of Consumer Advocate

The OCA stated that it had no objection to PSNH's petition. The OCA also stated that any redesign of PSNH's method for distributing credit should be subject to greater study and should be designed in such a way as to require large customers to be responsible for their share of any under-collections that PSNH may experience. The OCA suggested that this issue could be addressed in the docket, yet to be opened, which will cover PSNH's rates for calendar year 2008.

D. Staff

Staff agreed with the OCA that any proposal to redesign the method by which PSNH allocates over- and under-collections of energy service revenues should be examined in a proceeding separate from the current proceeding. Staff concluded by stating that it had reviewed PSNH's petition, conducted discovery and had no objection to the Petition as amended.

III. COMMISSION ANALYSIS

We have reviewed the petition and we find that the calculations and related documentation support PSNH's request for a mid-term adjustment to its energy service rates. We therefore grant the petition as amended at hearing.

We note that PSNH attributed part of the over-recovery reported in this docket to migration of large customers to competitive supply. As we stated in Order No. 24,714, additional information from competitive suppliers regarding the amount of PSNH load under contract for an upcoming year will help us to better understand the state of the competitive market and would aid PSNH in planning its supplemental power purchases. We urge the parties working on that proposal to complete their work on a recommendation for us to consider in this docket. Such information will prove helpful in addition to the quarterly information we currently receive from PSNH and the state's other distribution companies regarding the migration of their customers to competitive supply.

With respect to Freudenberg's proposal to require PSNH to redesign its method of allocating credits that result from over-recovery, we agree with the OCA and Staff that the issue needs further exploration and that a more appropriate time to consider it would be in the proceeding later this year to establish the energy service rate for 2008.

Finally, regarding Freudenberg's request that we institute an investigation into the state of competition in the electric industry in New Hampshire, we note that the exercise undertaken by the parties in response to Order No. 24,714, and referred to above, would appear to address Freudenberg's underlying position. Furthermore, the Legislature has directed the state Energy Policy Commission, pursuant to NH Laws of 2006, Chapter 257, to study competition and related

issues including the “[s]tructure, effectiveness, and competitiveness of wholesale and retail markets” and the divestiture of PSNH generation assets. We, therefore, decline at present to direct Staff to initiate a separate investigation that would likely be duplicative of other ongoing efforts.

Based upon the foregoing, it is hereby

ORDERED, that the petition, as amended, of Public Service Company of New Hampshire to implement an energy service rate of \$0.0783 per kilowatt-hour for bills rendered on or after July 1, 2007 is hereby GRANTED; and it is

FURTHER ORDERED, that PSNH shall file tariff changes that conform with this Order within 14 days hereof.

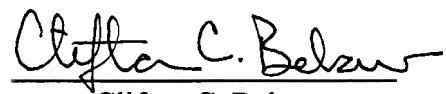
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of June, 2007.



Thomas B. Getz
Chairman

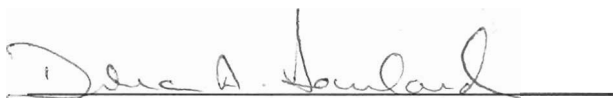


Graham J. Morrison
Commissioner



Clifton C. Below
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Attested by:



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