



**Public Service  
of New Hampshire**

PSNH Energy Park  
780 North Commercial Street, Manchester, NH 03101

Public Service Company of New Hampshire  
P.O. Box 330  
Manchester, NH 03105-0330  
(603) 669-4000  
www.psnh.com

The Northeast Utilities System  
July 27, 2007

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

Re: Carrying Costs On Working Capital For Costs Of Supply  
Docket No. DG 07-072

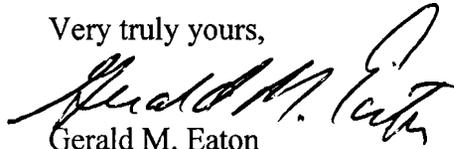


Dear Secretary Howland:

Enclosed please find an original and six copies of Public Service Company of New Hampshire's ("PSNH") Motion to be Dismissed as a Necessary Party in the above-captioned matter.

Copies of this filing have been provided to the persons on the attached Service List.

Very truly yours,

  
Gerald M. Eaton  
Senior Counsel

Enclosures  
cc: Service List

**DG 07-072**  
**SERVICE LIST**

Steven V. Camerino  
McLane Graf Raulerson &  
Middleton  
11 South Main Street, Ste 500  
Concord, NH 03301

Joseph A. Ferro  
Northern Utilities Inc.  
300 Friberg Parkway  
Westborough, MA 01581-5039

Susan Geiger  
Orr & Reno PC  
One Eagle Square  
P.O. Box 3550  
Concord, NH 03302-3550

Meredith A. Hatfield  
Office of Consumer Advocate  
21 South Fruit Street, Ste 18  
Concord, NH 03301-2429

Rorie Hollenberg  
Office of Consumer Advocate  
21 South Fruit St., Ste 18  
Concord, NH 03301-2429

Susan Kullberg  
Bay State Gas  
300 Friberg Parkway  
Westborough, MA 01581

Patricia French  
Bay State Gas  
300 Friberg Parkway  
Westborough, MA 01581

Ann Leary  
KeySpan Energy Delivery N.E.  
52 Second Avenue  
Waltham, MA 02451-1127

Leo Silvestrini  
Keyspan Energy Delivery NE  
52 Second Avenue, 4<sup>th</sup> Floor  
Waltham, MA 02451

Ken E. Traum  
Office of Consumer Advocate  
21 South Fruit Street, Ste 18  
Concord, NH 03301-2429

Debra A. Howland  
Executive Director & Secretary  
NH Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

Librarian  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

Edward Damon  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

Stephen Frink  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

George McCluskey  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

F. Anne Ross  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

Robert Wyatt  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

Amanda Noonan  
Consumer Affairs Director  
NHPUC  
21 S. Fruit Street, Ste 10  
Concord, NH 03301-2429

THE STATE OF NEW HAMPSHIRE  
before the  
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DG 07-072

CARRYING COSTS ON WORKING CAPITAL FOR COSTS OF SUPPLY

**Public Service Company of New Hampshire's Motion  
To Be Dismissed As A Necessary Party**

Public Service Company of New Hampshire ("PSNH"), pursuant to N.H. Code Admin. Rule Puc § 203.07, hereby moves for a Commission order dismissing PSNH as a necessary party to this proceeding. PSNH submits that its circumstances are substantially different from those of the other electric and gas distribution companies that have been made necessary parties; therefore, it should be dismissed as a mandatory party to this proceeding. The cost of capital that PSNH should recover on rate base and working capital related to the supply of Default Energy ought to be determined on a PSNH-specific proceeding. *See*, Docket No. DE 04-177, Order No. 24,473, slip op. at 41 (June 8, 2007) (Order establishing rate of return on equity for energy service). In support of its Motion, PSNH says the following:

1. By an Order of Notice dated June 25, 2007, the Commission opened this docket to examine, in a generic proceeding, what is the appropriate carrying cost to be applied to power supply working capital or gas supply working capital. As the Commission is aware, PSNH continues to own fossil-fired, wood-fired and hydroelectric generating stations. It has entitlements in the output from Wyman Unit No. 4 and Vermont Yankee electric generating stations. PSNH is interconnected from many independent power producers who sell their output under long term rate orders, power supply contracts or short term rates.

2. PSNH is required to use its generation resources and entitlements to supply the power for Default Energy Service. PSNH can only recover its actual, prudent and reasonable costs of providing Default Service (hereinafter “Energy Service”).

RSA 369-B:3,IV (b)(1)(A). PSNH rates have been disaggregated into Delivery Service, Energy Service, a Stranded Cost Charge and a System Benefits Charge. Notwithstanding this unbundling of rates, Energy Service is still computed in a traditional manner using the formula of rate base times rate of return, plus expenses. PSNH annually must reconcile its Energy Service revenues with its expenses, and it must demonstrate that the costs of providing Energy Service are reasonable and prudent.

3. In order to generate electricity to supply its Energy Service load, PSNH purchases substantial quantities of fuel. Even after the fuel is burned, PSNH runs the risk that its fuel cost will be found to be unreasonable or imprudent. The Commission has engaged an outside consulting firm to conduct an audit of PSNH’s coal purchasing and inventory practices. *See*, Docket No. DE 06-097. In addition to purchasing and managing its fuel supplies in an acceptable fashion, PSNH must operate its generating plants in a reasonable and prudent manner. If an outage is deemed to be the result of imprudent management, any excess cost of replacement power, above the cost of running the plant that would have otherwise operated absent the outage, will be disallowed and not recovered from Energy Service customers. Every year, the same outside consulting firm, on behalf of the Commission Staff, reviews all outages at PSNH’s owned generating stations to determine if those outages, as well as PSNH’s operating and maintenance practices, are reasonable and prudent. The consultant also reviews how PSNH conducts its power supply acquisitions which furnish roughly from twenty to thirty percent of the Energy Service loads that are not supplied by PSNH owned generation resources and entitlements. PSNH must demonstrate that it contracted for power at the right time, that it had a reasonable blend of fixed term contracts and purchases from the market. PSNH must try to mitigate congestion charges by

using such means as financial transmission rights. PSNH's power supply acquisitions are not pre-approved.

4. PSNH must also prudently manage its relationships with the independent power producers. Rather than simply pass these cost on to customers without question, PSNH has re-negotiated and bought out many long term rate orders and has hotly litigated claims by wood-fired and hydroelectric qualifying facilities. Bridgewater Power Co. and Pinetree Power fought the early termination of their rate orders in the superior and supreme courts as well as this Commission. *See*, Docket No. DE 05-153. PSNH is currently being sued by Hemphill Power & Light Company in superior court over the end of its rate order. *See*, Hillsborough County Superior Court, Northern District, Docket No. 07-C-0294. PSNH opposed the claim by Briar Hydro Associates that it was entitled to forward capacity market payments under its contract with PSNH for the sale of output from its Penacook Lower Falls dam. *See*, Docket No. DE 07- 045.

5. There is no up side to PSNH's operation of its power plants or management of its power supply portfolio. There is no reward for superior performance above the standard of actual, reasonable and prudent costs. RSA 369-B:3,IV (b)(1)(A). At one time PSNH sought to have the Commission recognize "extraordinary measures", specifically the substantial economic benefit of retaining and maintaining Seabrook Station's Unit 2 parts to be readily available to replace Unit 1 parts. After much investigation, the Commission rejected the proposal Docket No. DR 94-172, 80 NH PUC 586, Order No. 21,825 (September 21, 1995).<sup>1</sup>

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<sup>1</sup> "PETITION by electric utility for approval of a "mitigation fund" mechanism, by which financial rewards would be offered the owners and operators of the Seabrook nuclear generating units for extraordinary performance and savings associated with the use of parts from canceled Unit II in operating Unit I; denied, but commission does initiate a proceeding to clarify both accounting and rate-making treatment for the Unit II parts." 80 NH PUC 586.

6. PSNH uses available funds from all different sources in order to pay for the materials, fuel supplies and labor required to provide Energy Service. Customers are presumed to pay forty-five days after the services rendered. The working capital allowance compensates PSNH for rendering the service before the customer pays. PSNH is at substantial risk not to recover those funds for the reasons stated above. In Docket No. DE 06-123, cited in the June 25, 2007 Order of Notice in this proceeding, the Commission ruled that Unitil Energy Systems, Inc. should only recover the prime interest rate as a carry charge on power supply costs. The Commission found:

There is little question that the risk to UES of not recovering its DS supply costs is lower than the business risk UES faces in operating its distribution business. Unlike distribution service, DS costs and revenues are subject to regular periodic reconciliation. As a result, UES is not exposed to the risk of under-recovering power supply costs due to sales volatility. Nor is UES subject to the risk that power costs are disallowed because its contracts are subsequently found to be imprudent. In each DS proceeding, and prior to finalizing its power supply contracts, UES has requested and has received an explicit finding that the power supply costs resulting from its solicitation process are reasonable and recoverable through retail rates. For these reasons, we find that the carrying charge rate applied to supply-related working capital requirement should be lower than the Company's overall cost of capital. We will require UES to use the prime interest rate for this purpose. Order No. 24,682, slip op.at 11 (October 23, 2006).

7. It is axiomatic that PSNH faces far greater risks of loss through supplying Energy Service than electric distribution companies that have their power procurement practices pre-approved. PSNH should not be required to participate in this proceeding when its circumstances already dictate what the outcome will be with respect to PSNH alone. PSNH will file testimony and exhibits in the Fall requesting a new Energy Service rate to be established for calendar year 2008. In that proceeding PSNH's carrying cost for working capital can be examined based upon PSNH's supply of Energy Service which differ from the other distribution electric and natural gas utilities.

8. On July 26, 2007, PSNH circulated a draft of this Motion to the Staff and the other parties in this proceeding to ascertain their position with respect to PSNH's

Motion. The parties responding have the following positions: The Office of Consumer Advocate and Northern Utilities, Inc. do not oppose the Motion.

WHEREFORE, PSNH respectfully requests the Commission to include in its order following the prehearing conference the following findings:

A. PSNH's carrying cost for working capital related to its provision of Default Energy Service shall be determined in individual, PSNH-specific proceedings where PSNH's overall cost of capital for energy service will be used;

B. PSNH is not a necessary party to this proceeding and will not be bound by any decision in this proceeding; and

C. Such further findings as may be just and reasonable.

Respectfully submitted,

Public Service Company of New Hampshire

July 27 2007  
Date

By: Gerald M. Eaton  
Gerald M. Eaton, Senior Counsel  
780 North Commercial Street  
Post Office Box 330  
Manchester, New Hampshire 03105-0330  
(603) 634-2961

#### CERTIFICATE OF SERVICE

I hereby certify that, on the date written below, I caused the attached Motion to be Dismissed as a Necessary Party to be hand delivered or sent by First Class U.S. Mail, postage prepaid, to the persons on the attached Service List.

July 27 2007  
Date

Gerald M. Eaton  
Gerald M. Eaton