

THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
PREPARED TESTIMONY OF ROBERT A. BAUMANN
DEFAULT ENERGY SERVICE RATE MID-TERM ADJUSTMENT
Docket No. DE 07-096

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

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

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

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

11 A. The purpose of my testimony is to provide a detailed overview of PSNH's request for a mid-term
12 adjustment to increase the current Default Energy Service (ES) rate effective on July 1, 2008.

1 **Q. Please provide the historic and current ES rates.**

2 A. The table below outlines ES rates in effect from May 1, 2001 to the present for residential, small
3 commercial and industrial customers (Group 1) and large commercial and industrial customers
4 (Group 2).

Date of Service

May 2001 - January 2003	(a)	4.40 cents per kWh
February 2003 - January 2004	(b)	4.60 / 4.67
February 2004 - July 2004		5.36
August 2004 - January 2005		5.79
February 2005 - July 2005		6.49
August 2005 - January 2006		7.24
February 2006 – June 2006		9.13
July 2006 - December 2006		8.18
January 2007 – June 2007		8.59
July 2007 – December 2007		7.83
January 2008		8.82

5 (a) Set by statute for all retail customers.

6 (b) Small C&I and residential set by statute (4.60 cents). Large C&I set on forecasted
7 costs (4.67 cents)

8 Initially, Energy Service rates were set by statute. Beginning in February 2003, the Energy
9 Service rate for large commercial and industrial customers (Group 2) was based on PSNH's
10 forecast of "actual, prudent and reasonable costs" (4.67 cents). Beginning in February 2004, the
11 Energy Service rate for all retail customers was based on a forecast of PSNH's "actual, prudent
12 and reasonable costs."

13 **Q. What is PSNH requesting in this proceeding?**

14 A. In this proceeding, PSNH is requesting that the Commission approve a mid-term adjustment to
15 the ES rate for all customers effective July 1, 2008. This rate adjustment would increase the

1 current ES rate of 8.82 cents per kWh to 9.25 cents per kWh, based on actual results through
2 March 2008 and the most current forecast of PSNH's costs of providing such power for the
3 remainder of 2008. The detailed calculations supporting the proposed ES rate can be found in
4 Attachments RAB-1 and RAB-2 to this testimony.

5 **Q. Please provide an overview of how the Energy Service cost recovery mechanism works.**

6 A. PSNH recovers the cost of supplying energy to customers who choose to receive energy from
7 PSNH through the ES rate. The ES rate is forecasted, and then reconciled once actual costs are
8 known. ES reconciliation amounts beginning in February 2006 are deferred and applied to future
9 ES rate recoveries per the Commission's order and findings in Docket No. DE 05-164, Order No.
10 24,579, dated January 20, 2006.

11 **Q. Describe what has transpired during the ES period beginning January 1, 2008?**

12 A. The current ES rate of 8.82 cents per kWh became effective on January 1, 2008 for the twelve
13 month period, January – December 2008. Since that time, there have been significant increases in
14 current market prices for several cost components from the level used in forecasting the current
15 ES rate. These significant increases have occurred in the commodity cost of coal, coal
16 transportation, market purchases and the cost of oil. Without a rate change, the total projected
17 under-recovery for the 2008 ES year is now \$17.3 million. Our proposed ES rate of 9.25
18 cents/kWh reflects the recovery of this projected under recovery by year end.

19 **Q. When will PSNH provide further information on these significant cost increases?**

20 A. The values in this filing will be updated in about six weeks using the latest known forecast of
21 market prices for the remainder of the year, and including actual April 2008 results. At that time

1 we will provide further detail to support this requested rate change. That detail will be filed in a
2 Technical Statement.

3 **Q. Are the costs that PSNH has included in this ES rate filing consistent with past ES filings?**

4 A. Yes. ES costs contain the revenue requirements associated with generation assets, generation
5 entitlements and purchased power obligations. In addition, ES costs include the fuel costs
6 associated with PSNH's generation as well as costs and revenues from market purchases and
7 sales of electricity and ISO-NE expenses and revenues. The generation revenue requirements
8 include non-fuel costs of generation, including non-fuel operation and maintenance costs,
9 allocated administrative and general costs, depreciation, property taxes, payroll taxes, and a return
10 on the net fossil/hydro investment. In addition, ES costs reflect the ES portion of uncollectible
11 expense consistent with the Settlement Agreement in PSNH's Delivery Service Rate Proceeding,
12 Docket No. DE 06-028.

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

15 A. PSNH includes the IPP generation as a source of power to meet PSNH's load requirements, and
16 that power is valued based on projected market costs (energy and capacity). The over-market
17 portion of purchases from the IPPs are considered to be a stranded cost and recovered as a Part 2
18 cost through the Stranded Cost Recovery Charge. This treatment is consistent with the
19 Restructuring Settlement and the Commission's Order in Docket No. DE 02-166. As market
20 prices increase, the ES costs increase and there is a corresponding decrease to the SCRC rate for
21 the same time period. To properly match the recovery of IPP costs, PSNH will also
22 simultaneously file for a change in the SCRC rate effective July 1, 2008.

1 **Q. Does the Commission need to make a determination at this time of the prudence of the costs**
2 **incurred since January 1, 2008?**

3 A. No. Those issues will be addressed in the Energy Service Charge reconciliation which has
4 traditionally been filed in early May following the calendar year when those costs were incurred
5 and collected.

6 **Q. Does PSNH propose to implement the new Energy Service rates on a bills-rendered basis?**

7 A. Yes. PSNH proposes implementation of the new ES rates for all customers taking such service
8 on a bills-rendered basis. In the rate case settlement agreement (Docket No. DE 06-028), the
9 parties agreed that all delivery service rate changes would be implemented on a bills-rendered
10 basis. The final delivery service rate change provided for by the settlement will occur on July 1,
11 2008, when PSNH will implement a delivery service rate change to remove recoupment. In
12 accordance with the settlement, this change will be implemented on a bills-rendered basis. It is
13 not possible for PSNH to implement changes to some rate components on a bills-rendered basis
14 and changes to other rate components on a service-rendered basis. Therefore, PSNH is proposing
15 to implement the new ES rate on a bills-rendered basis, consistent with the manner in which the
16 delivery rate change will be implemented.

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

18 A. Yes, PSNH requests final approval of the proposed ES rate by June 24, 2008, in order to
19 implement the new rate for bills rendered as of July 1, 2008. This timing would provide PSNH
20 additional time for testing of the rate change which will take place concurrent with the switchover
21 of the current Customer Service Billing System (CS) to the new system (C2) in the first week of

1 July 2008. Therefore, PSNH requests that the Commission commence a proceeding so that the
2 procedural schedule can be set to review this filing and approve the revised ES rate in a timely
3 manner.

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

5 A. Yes, it does.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

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10 **Summary of Forecasted Energy Service**

11 Cost For January 2008 Through December 2008	TOTAL COST	Reference
12		
13 Fossil energy costs	\$ 161,204	Attachment RAB-2, page 2
14 F/H O&M, Depreciation & Taxes	136,992	Attachment RAB-2, page 2
15 Return on rate base	39,630	Attachment RAB-2, page 2
16 Ancillary, ISO-NE, Uplift, RPS & Capacity Costs	45,279	Attachment RAB-2, page 2
17 Vermont Yankee	6,863	Attachment RAB-2, page 2
18 IPP costs (1)	44,137	Attachment RAB-2, page 2
19 Purchases and Sales	298,084	Attachment RAB-2, page 2
20 Return on ES Deferral	(23)	Attachment RAB-2, page 2
21 ES Uncollectible Expense	1,566	Attachment RAB-2, page 2
22 2007 Actual ES Underrecovery	<u>(17,560)</u>	Attachment RAB-2, page 3
23 Total Updated Energy Service Cost	\$ 716,172	Attachment RAB-2, page 2
24 Total Updated Revenue at 8.59 cents per kwh	<u>698,833</u>	Attachment RAB-2, page 2
25 Energy Service Under/(Over) Recovery	\$ 17,339	
26 Forecasted Retail MWH Sales - July - December 2008	<u>4,066,771</u>	Attachment RAB-2, page 2
27 Increase in Energy Service Rate - cents per kwh (L25/26)	\$ 0.43	
28 Energy Service rate as approved in DE 06-096 - cents per kwh	<u>\$ 8.82</u>	
29 Updated Energy Service rate effective 7/1/08 - cents per kwh	\$ 9.25	

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

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	January 2008 Actual	February 2008 Actual	March 2008 Actual	April 2008 Re-estimate	May 2008 Re-estimate	June 2008 Re-estimate	Reference
Energy Service Cost							
Fossil Energy Costs	\$ 16,636	\$ 13,653	\$ 13,937	\$ 5,029	\$ 6,023	\$ 14,325	RAB-2, P3
F/H O&M, Depreciation & Taxes	8,945	8,942	9,904	18,718	13,386	9,443	RAB-2, P5
Return on Rate Base	2,990	3,003	2,978	3,128	3,287	3,378	RAB-2, P6
Ancillary, ISO-NE, Uplift, RPS & Capacity Costs	3,736	3,516	4,188	3,062	2,844	3,858	RAB-2, P3
Vermont Yankee	655	605	567	607	627	607	RAB-2, P3
IPP Costs	5,798	5,352	4,959	3,794	3,647	2,988	RAB-2, P4
Purchases and Sales	17,828	17,464	18,708	33,552	29,576	20,659	RAB-2, P3
Return on ES Deferral	(74)	(69)	(75)	(83)	(42)	(24)	
ES Uncollectible Expense	-	-	-	174	174	174	
2007 Actual ES Over-recovery	(17,560)	-	-	-	-	-	
Total Energy Service Cost Re-estimate	\$ 38,954	\$ 52,467	\$ 55,167	\$ 67,981	\$ 59,522	\$ 55,408	
Total Energy Service Revenue @ 8.82	\$ 61,543	\$ 56,104	\$ 57,537	\$ 56,560	\$ 53,122	\$ 55,277	
ES Under/(Over) Recovery	\$ (22,589)	\$ (3,637)	\$ (2,370)	\$ 11,421	\$ 6,399	\$ 131	
Retail MWH Sales	697,877	636,122	652,440	641,272	602,293	626,721	
Energy Service Cost - cents per kwh	5.58	8.25	8.46	10.60	9.88	8.84	

Amounts shown above may not add due to rounding.

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION
(Dollars in 000's)

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008	Total	Reference
Energy Service Cost	Re-estimate	Re-estimate	Re-estimate	Re-estimate	Re-estimate	Re-estimate		
Fossil Energy Costs	\$ 19,739	\$ 17,952	\$ 12,291	\$ 11,992	\$ 14,524	\$ 15,100	\$ 161,204	RAB-2, P3
F/H O&M, Depreciation & Taxes	10,523	9,836	13,948	14,293	9,252	9,802	136,992	RAB-2, P5
Return on Rate Base	3,431	3,459	3,487	3,492	3,495	3,501	39,630	RAB-2, P6
Ancillary, ISO-NE, Uplift, RPS & Capacity Costs	3,839	3,656	3,461	3,965	4,469	4,685	45,279	RAB-2, P3
Vermont Yankee	627	627	607	344	364	627	6,863	RAB-2, P3
IPP Costs	2,701	2,492	2,249	2,812	3,326	4,018	44,137	RAB-2, P4
Purchases and Sales	26,201	30,272	28,836	28,984	21,525	24,479	298,084	RAB-2, P3
Return on ES Deferral	(11)	12	42	81	105	115	(23)	
ES Uncollectible Expense	174	174	174	174	174	174	1,566	
2007 Actual ES Over-recovery	-	-	-	-	-	-	(17,560)	
Total Energy Service Cost	\$ 67,224	\$ 68,480	\$ 65,095	\$ 66,137	\$ 57,235	\$ 62,501	\$ 716,172	
Total Energy Service Revenue @ 8.82	\$ 63,189	\$ 63,920	\$ 57,504	\$ 56,984	\$ 56,606	\$ 60,487	698,833	
ES Under/(Over) Recovery	\$ 4,036	\$ 4,561	\$ 7,591	\$ 9,154	\$ 629	\$ 2,014	17,339	
Forecasted Retail MWH Sales	716,428	724,714	651,976	646,075	641,787	685,791	7,923,496	
Energy Service Cost - cents per kwh	9.38	9.45	9.98	10.24	8.92	9.11	9.04	

Amounts shown above may not add due to rounding.

PUBLIC SERVICE RATE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION

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

		Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
1											
2	Hydro:										
3	Energy	39.032	37.121	28.043	20.382	18.664	16.544	23.186	31.518	30.355	244.845
4	Coal:										
5	Energy	121.822	121.176	321.389	340.894	327.280	271.526	267.065	326.022	339.890	2,437.064
6	Energy Expense	\$ 4,866	5,471	13,791	14,613	14,053	11,757	11,607	13,990	14,548	104,696
7	Wood:										
8	Energy	10.571	30.132	29.160	30.132	30.132	29.160	21.020	29.160	30.132	239.599
9	Energy Expense	\$ 527	1,501	1,453	1,501	1,501	1,453	1,047	1,453	1,501	11,939
10	Revenue Credit	(364)	(949)	(919)	(949)	(949)	(919)	(662)	(919)	(949)	(7,579)
11	Nuclear:										
12	Energy	14.64	15.128	14.64	15.128	15.128	14.64	8.296	8.784	15.128	121.512
13	Energy Expense	\$ 607	627	607	627	627	607	344	364	627	5,037
14	Newington:										
15	Energy	0.000	0.000	0.000	46.281	33.943	0.000	0.000	0.000	0.000	80.224
16	Energy Expense	\$ -	-	-	4,574	3,347	-	-	-	-	7,921
17	IPP's:										
18	Energy	51.160	41.113	32.225	26.384	24.238	24.137	28.431	34.672	39.067	301.427
19	Energy Expense	\$ 3,564	3,412	2,841	2,554	2,345	2,102	2,523	3,037	3,729	26,107
20	ICAP	\$ 230	235	147	147	147	147	289	289	289	1,920
21	Peak Purchase:										
22	Energy	61.346	33.909	48.589	78.221	73.728	79.082	99.668	53.281	70.124	597.948
23	Expense	\$ 4,808	2,749	4,284	7,889	7,693	7,333	9,402	5,006	7,115	56,279
24	Known Purchases										
25	Energy	323.488	316.277	180.704	169.877	167.477	197.504	153.877	143.904	152.277	1,805.385
26	Expense	\$ 24,825	23,490	15,166	14,967	14,709	16,197	12,813	11,913	12,651	146,731
27	Offpeak Purchase:										
28	Energy	60.948	44.934	35.221	45.941	85.309	66.071	83.795	53.701	51.060	526.980
29	Expense	\$ 4,030	3,402	2,996	4,370	8,400	5,783	6,769	4,630	4,765	45,145
30	Surplus Energy Sales										
31	Energy	(1,625)	(0,897)	(25,171)	(13,335)	(7,209)	(7,097)	0.000	(0,302)	(0,669)	(56,305)
32	(Credit)	\$ (111)	(65)	(1,787)	(1,025)	(530)	(477)	0	(24)	(52)	(4,071)
33	Congestion and Loss Adjustment										
34		\$ (554)	(499)	103	15	(176)	(301)	(374)	28	(8)	(1,766)
35	Total Energy GWh	681.382	638.893	664.800	759.905	768.690	691.567	685.338	680.740	727.364	6,298.679
36	Total Energy Expense	\$ 42,428	39,374	38,682	49,284	51,167	43,683	43,758	39,767	44,216	392,359
37											
38	Other Expense & Capacity										
39	ISO-NE, Uplift, Reserve & Regulation,	\$ 1,225	877	1,311	1,379	1,388	1,317	1,275	1,272	1,314	11,358
40	RPS and Ancillary										
41	Newington Capacity Revenue	\$ (142)	(142)	(142)	(142)	(142)	(142)	(142)	-	-	(994)
42											
43	Capacity (sold)/bought MW-mo	830	855	690	690	690	690	855	845	901	7,045
44	Capacity (sold)/bought Cost (\$000)	\$ 2,533	2,607	2,587	2,587	2,587	2,587	3,206	3,169	3,379	25,241

Amounts shown above may not add due to rounding.

1 **Forecasted PSNH IPP Market Value**

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4	IPP	IPP at	Capacity	ICAP Value	ICAP	Total	Total
5	Month	Mkt Value	MW	\$/kw-mo	(\$000)	(\$000)	\$/MWh
	GWh	(\$000)					
6	May	3,412	77.1	3.05	235.0	3,647	88.71
7	June	2,841	39.1	3.75	147.0	2,988	92.72
8	July	2,554	39.1	3.75	147.0	2,701	102.37
9	August	2,345	39.1	3.75	147.0	2,492	102.81
10	September	2,102	39.1	3.75	147.0	2,249	93.18
11	October	2,523	77.1	3.75	289.0	2,812	98.91
12	November	3,037	77.1	3.75	289.0	3,326	95.93
13	December	3,729	77.1	3.75	289.0	4,018	102.85
14	Total	22,543			1,690	24,233	96.83

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION
Fossil / Hydro O&M, Depreciation & Taxes Detail
(Dollars in 000's)

	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2007	Total
Fossil / Hydro O&M, Depr. & Taxes	Actual	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
F/H Operation & Maintenance Cost	\$ 6,444	\$ 6,527	\$ 7,388	\$ 16,175	\$ 10,841	\$ 7,064	\$ 7,850	\$ 7,220	\$ 11,213	\$ 11,675	\$ 6,642	\$ 7,043	\$ 106,082
F/H Depreciation Cost	1,648	1,657	1,658	1,770	1,785	1,786	1,815	1,828	1,840	1,846	1,850	1,855	21,338
F/H Property Taxes	612	617	663	668	668	668	668	668	668	668	668	668	7,904
F/H Payroll Taxes	240	141	91	105	92	102	190	120	102	104	92	109	1,489
Amort. of Asset Retirement Obligation	-	-	104	-	-	123	-	-	125	-	-	127	479
2008 SO2 Auction Proceeds	-	-	-	-	-	(300)	-	-	-	-	-	-	(300)
Total F/H O&M, Depr. and Taxes	\$ 8,945	\$ 8,942	\$ 9,904	\$ 18,718	\$ 13,386	\$ 9,443	\$ 10,523	\$ 9,836	\$ 13,948	\$ 14,293	\$ 9,252	\$ 9,802	\$ 136,992

Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
2008 ENERGY SERVICE RATE CALCULATION
FOSSIL/HYDRO RETURN ON RATE BASE
(Dollars in 000's)

	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2007	Total
<u>Return on Rate Base</u>	Actual	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
<u>Rate base</u>													
Net Plant	238,148	238,148	238,148	246,445	253,844	266,994	266,747	273,591	272,548	274,528	275,114	274,802	
Working Capital Allow. (45 days of O&M)	14,014	14,014	14,014	13,079	13,079	13,079	13,079	13,079	13,079	13,079	13,079	13,079	13,079
Fossil Fuel Inventory	43,067	43,067	43,067	54,270	54,270	54,270	54,270	54,270	54,270	54,270	54,270	54,270	54,270
Mat'ls and Supplies	42,426	42,426	42,426	40,210	40,358	40,267	40,031	39,758	39,449	38,875	39,109	42,986	
Prepaid Property Taxes	2,068	2,068	2,068	2,028	2,028	2,028	2,028	2,028	2,028	2,028	2,028	2,028	2,028
Deferred Taxes	(14,097)	(14,097)	(14,097)	(3,952)	(3,689)	(4,858)	(4,821)	(4,819)	(4,070)	(3,726)	(5,689)	(6,767)	
Other Regulatory Obligations	(1,856)	(1,856)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	
<u>Total Rate Base (L15 thru L22)</u>	<u>323,770</u>	<u>323,770</u>	<u>323,929</u>	<u>350,382</u>	<u>358,192</u>	<u>370,082</u>	<u>369,636</u>	<u>376,210</u>	<u>375,606</u>	<u>377,357</u>	<u>376,214</u>	<u>378,701</u>	
Average Rate Base (prev + curr month)	322,268	323,770	323,849	337,156	354,287	364,137	369,859	372,923	375,908	376,482	376,785	377,457	
x Return	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	0.9276%	
<u>Return (L25 x L26)</u>	<u>\$ 2,990</u>	<u>\$ 3,003</u>	<u>\$ 2,978</u>	<u>\$ 3,128</u>	<u>\$ 3,287</u>	<u>\$ 3,378</u>	<u>\$ 3,431</u>	<u>\$ 3,459</u>	<u>\$ 3,487</u>	<u>\$ 3,492</u>	<u>\$ 3,495</u>	<u>\$ 3,501</u>	<u>\$ 39,630</u>

Amounts shown above may not add due to rounding.