THE STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

PREPARED TESTIMONY OF ROBERT A. BAUMANN

INVESTIGATION INTO CUSTOMER MIGRATION AND POWER PROCUREMENT

Docket No. DE 10-160

Q. Please state your name, business address and position.

A. My name is Robert A. Baumann. My business address is 107 Selden Street, Berlin, Connecticut. I am Director, Revenue Regulation & Load Resources for Northeast Utilities Service Company (NUSCO). NUSCO provides centralized services to the Northeast Utilities (NU) operating subsidiaries, including Public Service Company of New Hampshire (PSNH), The Connecticut Light and Power Company, Yankee Gas Services Company and Western Massachusetts Electric Company.

Q. Have you previously testified before the Commission?

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

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to address a fairness question for PSNH's customers resulting from recent rising Energy Service (ES) rates associated with increased levels of customer migration to third party supply. This testimony will describe this ES migration issue ("ES issue") and present some possible solution alternatives as to how the Commission may deal with this ES issue in future ES rate proceedings.

Q. What are you asking the Commission to address in this testimony?

A. There are two general issues that we will address in this testimony that PSNH believes should be the focus of this ES issue.

Q. What are the two general issues noted above?

A. The first issue for the Commission to address is to make a formal determination that due to increased migration, remaining customers (primarily smaller customers) taking service under the ES rate are being unfairly charged for certain ES costs. While migration is happening, customers who have switched from the ES rate to third party supply (primarily larger customers) pay nothing towards these costs until they choose to switch back to service under the ES rate. This is fundamentally unfair as it creates benefits to those customers who have migrated at the expense of customers who have not.

The second issue only arises if the Commission formally determines that due to increased migration, remaining customers under the ES rate are being unfairly charged for certain ES costs. If this is the case then the Commission would need to explore potential cost recovery options to alleviate these inequities in the ES rate. In this proceeding PSNH will offer some potential solution alternatives, but we believe it is the obligation of all interested parties to work towards reasonable solutions to this imbalance in recent ES cost recovery. The docket schedule offers ample opportunities to submit ideas on the topic and PSNH looks forward to comments and ideas from all interested parties.

Fairness Issue

Q. Please elaborate on the first issue related to the general issue of fairness where smaller customers being unfairly charged for certain ES costs.

A. To address this ES issue we need to discuss what has transpired in the past. In prior years when there was little to no customer migration, the role of the ES rate was to charge all customers an ES rate that was stable and reasonably priced. These historic ES rates offered economic stability to all customers and were supported by PSNH's generation facilities. Over the years these facilities have produced millions of dollars of benefits to customers as well as providing a stable base of generation supply that the customers could rely on. It was, and still is, PSNH's obligation and commitment to all of its customers to meet its Supplier of Last Resort obligation at all times for every hour of every day, with reliable and cost effective supply. To that end, PSNH maintains a portfolio of power sources to meet current and future load obligations. These significant power sources are PSNH's own generation and unit entitlements, IPP generation from contracts and rate orders, contracted blocks of fixed purchase power sources, and anticipated market power purchases, mostly through the daily ISO-NE interchange process. Over the past, PSNH has planned and/or procured ahead of time a large portion of the load obligation with its own generation, purchased power and IPP supplies to minimize future market exposure risk from unsecured load obligations.

Moving to the present, PSNH's ES load obligation over the past 24 months has declined significantly, due primarily to the migration of some customers (mostly larger customers) to third party supply, leaving the remaining customers (mostly residential and small commercial) with a higher ES rate. Mathematically, as PSNH's ES load drops, the denominator in the ES rate calculation drops (sales in kWh), thus increasing the ES rate. As a partial offset, the numerator of the ES rate calculation (costs) drops due to the lower power supply requirements including avoidance of variable fuel costs, capacity purchases, etc., but not in the same proportion as the decline in the denominator. The result is that certain costs remain in both the pre and post migration ES calculations, thus resulting in upward pressure on the ES rates for the remaining customers.

Q. Please expand on the types of remaining costs that are referred to in the last answer.

A. There are certain costs that are incurred in direct support of PSNH's generation or obligated purchased power arrangements that remain fixed regardless of the level of the ES load obligation. The generation costs that are readily identifiable would be depreciation and property tax expenses as well as the debt service component of the capital structure which supports PSNH's generation. Purchased power arrangements that were entered into to minimize future market exposure risk would also have to be honored, and therefore could also be classified as fixed in nature. Arguably, the fixed portion of such purchased power arrangements could be the above market portion only.

Q. How would any identified fixed costs be handled in the context of this ES issue that PSNH has put forth in this testimony?

A. PSNH believes that at the heart of this ES issue is the fairness associated with what customers pay for these fixed costs. We believe that fixed costs that have been incurred for **all** customers should be supported by **all** customers in their rates. Therefore any identified fixed costs should not be bypassable which they now are in the current rate structure. The annual fixed costs associated with the depreciation, property taxes and debt costs noted above are about $40 million per year in the ES calculation.

Q. How then have these higher ES rates burdened the customers who remain on the ES rate?

A. In the Commission's Order No. 25,061 in Docket No. DE 09-180 (hereinafter "the Commission's Order"), an ES rate was approved assuming a going forward migration rate of 27%. It was shown in that docket that as customers migrated to third party supply during a time when the marginal cost to serve is lower than the average cost to serve, the ES rate increased for the remaining ES customers. Most of those ES customers are the residential customers and the smaller commercial customers that have less of an opportunity to choose third party supply ("small customers"). It was PSNH's testimony at that time, and it is today, that this phenomenon is unfair to the small customers remaining on the ES rate and an unintended consequence that has resulted from the changes brought about due to restructuring.

Furthermore, customers who have selected a third party supply benefit from PSNH's embedded supply if they elect to return to PSNH. Such customers do not pay anything for this guaranteed back up supply unless and until they return to ES service. In the meantime, remaining customers are left with a higher ES rate as they continue to fully support 100% of PSNH's supply. Recognizing this issue, the Commission's Order in that docket on page 31 noted the following:

"It is clear that approving Method 2 alone, however, does not fully address the effects of the migration of large customers to competitive suppliers on PSNH's

small commercial and residential customers who have less of an opportunity to choose an electric supplier."

Method 2 in that docket approved moving certain reliability costs out of the ES and into the TCAM, but by the Commission's own words, this Method 2 alone did not fully address the effects of the customer migration on PSNH's remaining ES customers.

Q. Describe further the issue of customers moving from PSNH supply to competitive supply.

A. It is reasonable to expect that PSNH's customers who have an alternative and less expensive option of third party power supply will move to that less expensive supply. Also, when that third party supply becomes more expensive, it is also reasonable to expect that many of these customers would move back to PSNH supply. These switching customers are simply taking advantage of a price opportunity that has been offered to them by the current regulatory environment, and there is nothing wrong with that. However, as a result of this scenario, remaining customers that have less of an opportunity to choose a lower cost electric supplier, remain with PSNH. The ES rate for these remaining customers has increased since these customers continue to support 100% of the PSNH supply costs that have historically been supported by all customers. PSNH believes this scenario is an unanticipated result of restructuring and is unfair to the many customers who remain on the ES rate.

Q. Please expand on your comments that refer to this ES issue as an unintended result of restructuring.

A. The restructuring law was not intended to have one general group of customers shouldering additional costs as a result of another group securing lower rates. The unbundling of rates, as noted in RSA 374-F:3, III, **"to provide customers clear price information"** has little, if anything, to do with the notion of one group of customers (say large commercial customers) transferring off-and-onto default service in an opportunistic manner at the detriment of other customers who have less of an opportunity to move to a third party supply. Referring to the provision of RSA 374-F:3, VI –

"Restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another. Costs should not be shifted unfairly among customers,"

In addition, RSA 374-F:3, V(d) provides:

"The commission should establish transition and default service appropriate to the particular circumstances of each jurisdictional utility."

Q. **Does PSNH believe the current drop in load obligation due to migration will continue long term?**

A. No. PSNH believes the current drop in energy service load obligation is primarily due to currently low competitive market prices which historically have fluctuated dramatically over short periods of time. The current short-term unprecedented market price decline over the past 24 months has allowed certain marketers to offer selected larger customers lower ES rates than provided by PSNH's default ES rate. We do not believe the past 24 months is an accurate indicator for long-term prices.

PSNH believes the short-term market decline is more a function of the current unprecedented low natural gas prices setting the New England market price and the world-wide economic decline. These current market prices may very well be short-lived. If market prices in the future increase once again to a level above the average ES rate level, PSNH expects that some or all of these customers on third party supply would migrate back to PSNH's ES default rate. As supplier of last resort, PSNH would then be required to secure supply for these returning customers during a period of rising market prices. As prices increase, this would translate into even higher ES rates for all customers. If prices were to fall once again below the ES rate level, we would expect that some of these returning customers would once again move to a third party supply if it were in their economic interests to do so. This again, depending on the depth of the lower market prices, may leave the remaining customers on PSNH supply with additional costs to shoulder through even higher ES rates.

PSNH believes that the facts and existing legislative guidance discussed above clearly supports some form of action by the Commission that would move the current rate structure towards a more equal playing field for all customers. To that end, we request a Commission finding that the current recovery methodology of ES costs needs to be refined to address the detriment that is present for customers remaining on the ES rate. If the Commission finds that there is no "ES fairness" issue, then there is no need for the Commission to explore alternative cost recovery options. However, if the Commission finds that the current regulatory setup is unfair, then the next section of our testimony explores some general alternative cost recovery options that could be considered in addressing the ES migration issue.

General Alternative Cost Recovery Options

Q. Describe going forward what rate recovery approach could be adopted.

A. A straight-forward approach to addressing this ES issue of fairness in cost recovery is to first identify what costs should be recovered from **all** customers which are now being recovered from only smaller ES customers. At this point these identified costs should then be moved from the ES rate and into a non-bypassable recovery rate that would fairly support the collection of these costs from the appropriate customers. To do so, the identified portion of the current ES costs would need to be removed from the bypassable ES calculation and recovered through a non-bypassable charge. Such a recovery would then fairly spread the costs, such as back up supply, to all customers, not just customers remaining on ES.

Q. How would the new rate structure be applied to customer bills?

A, The method by which you accomplish the removal of these identified costs, and then recover the costs from the appropriate customers could be accomplished in different ways. 100% of the identified costs could be removed from the ES and included in a non-bypassable rate that would be charged to **all** customers. Alternatively, a portion of the identified costs that related to the customers who have switched could be removed from the ES rate and included in a non-bypassable charge applied only to the migrated customers. This second alternative would keep the applicable costs of, say, last resort service, in the ES that were applicable to the remaining ES customers, but remove the inappropriate portion of those costs for recovery from those migrating customers.

Q. Would this needed change in rate structure add any complication to the reconciliation of ES costs?

A. The implementation of such an adjustment to the ES rate would add some level of complication to the applicable calculations and accounting associated with the ES, but PSNH believes such additional work would be warranted. We believe the annual ES reconciliations would still be straight forward with respect to total costs, however, the revenue component would have an additional factor for the additional revenues collected from customers who were now paying their fair share of certain costs through a non by-passable charge that represented the value they were receiving for identified back up supply and/or other fixed costs.

Q. Please summarize your request.

A. PSNH believes there is an inequity in the current recovery of certain ES costs resulting from the current recovery framework. This inequity has caused additional costs to be billed unfairly to one set of customers (remaining ES customers) to the benefit of customers who have migrated to third party supply. We request that the Commission address this identified ES issue and begin to take steps to alleviate the imbalance in cost recovery. We believe this is the right thing to do for all of our customers and is supported by the legislative intent of deregulation.

Q. Does this conclude your testimony?

A. Yes, it does.