**THE STATE OF NEW HAMPSHIRE**
**BEFORE THE**
**NEW HAMPSHIRE**
**PUBLIC UTILITIES COMMISSION**

**DE 10-160**

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

**Investigation into Effect of Customer Migration on Energy Service Rates**

# PREFILED TESTIMONY OF MICHAEL E. HACHEY ON BEHALF OF TRANSCANADA POWER MARKETING LTD. AND TRANSCANADA HYDRO NORTHEAST INC.

**September 15, 2010**

## Background and Qualifications

**Q. Please state your name and business address.**

A. My name is Michael E. Hachey. My business address is 110 Turnpike Road – Suite 203, Westborough, MA 01581-2863.

**Q. Who is your current employer and what positions do you hold ?**

A. I am employed by TransCanada Power Marketing Ltd. ("TCPM"). In my current position I am Vice President and Director, Eastern Commercial.

**Q. What is your background and what are your qualifications ?**

A. I have a Bachelor of Science in Electrical Engineering and a Master of Engineering Degree in Electric Power Engineering from Rensselaer Polytechnic Institute. I have over 30 years experience in the electric power industry, including 11 years with TransCanada Power Marketing. I was previously employed by New England Power Company for 21 years. I have participated in proceedings before the New Hampshire Public Utilities Commission, the Federal Energy Regulatory Commission, and other state

regulatory commissions. In my current position I am responsible for government and regulatory affairs, retail marketing, and property taxes.

**Q. Please explain what TCPM does.**

A. TCPM is a competitive supplier of electricity in the Northeast United States and is a licensed electric retail supplier in the states of New Hampshire, Massachusetts, Rhode Island, Connecticut, Maine and New York. TCPM is an indirect wholly owned subsidiary of TransCanada Corporation, a leader in the responsible development and reliable operation of North American energy infrastructure, with a network of more than 36,500 miles of pipeline facilities and approximately 355 billion cubic feet of gas storage capacity. As a growing independent power producer, TransCanada owns, controls or is developing approximately 10,900 megawatts of power generation in Canada and the United States.

## Purpose of Testimony

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

A. The purpose of my testimony is to address some of the issues that were raised in the Order of Notice that the Commission issued in this docket regarding migration, PSNH's power purchase practices, and PSNH's suggestion that the Commission ought to consider a non-bypassable charge to recover its costs of providing power to default service customers. In addition, I think it is important to provide the Commission with the perspective of a competitive supplier that operates in the New Hampshire market and other markets in New England. As the Commission noted in the Order of Notice, this docket was opened to "investigate the issues related to PSNH's

customer migration and PSNH's practices for procuring power not supplied by its owned generation." The Order of Notice went on to say:

> The filing raises, inter alia, issues related to whether PSNH's suggested creation of a non bypassable mechanism to bill a portion of energy service charges to all customers is permitted pursuant to New Hampshire law and is a reasonable way to address the cost impacts of customer migration on non-migrating energy service customers; what other potential methods exist to address those cost impacts including, but not limited to, the targeted use of technology-based initiatives and/or targeted rate mechanisms; the interplay of PSNH's current supplemental power purchase practices with customer migration; whether alternative procurement strategies should be implemented; and the appropriate scope of the proceeding.

**Q. Why did TCPM and TransCanada Northeast Hydro Inc. intervene in this docket ?**

A. TransCanada is concerned about what PSNH has referred to as "the upward pressure on the ES rate" caused by increased migration levels and what PSNH has proposed as a solution to this. TransCanada has serious concerns about any effort to take some portion of the costs of providing default service and have those costs assessed against customers who have migrated to competitive suppliers through a non-bypassable charge. TransCanada believes that there are steps the Commission should take to insure that some of the risks associated with purchasing power to serve the customers on default service are born by a provider of that power, rather than by PSNH customers and in this manner the need to pass on costs through a non-bypassable charge would be obviated. TransCanada believes that the increased migration of customers from default service shows that the market is working for the larger retail customers and believes that any steps that are taken should be done in a way that enhances this positive development of the market for electricity in New Hampshire for all classes of customers.

## Customer Migration and the Process for Purchasing Power

**Q. What is your understanding of the current status of migration of default service customers to competitive suppliers ?**

A. It is my understanding that the level of migration is approximately 31% of sales, which is up from 24% as of the end of 2009.

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

A. No. On pages 7 and 8 of his prefiled testimony in this docket Mr. Baumann makes it clear that he believes the current drop in energy service load obligation is due to low market prices, which he characterizes as the "current short-term unprecedented market price decline". While he thinks that the "short-term" market decline is a function of "unprecedented low natural gas prices" he thinks current market prices "may very well be short-lived."

**Q. What is PSNH suggesting ought to be done in light of this migration of customers ?**

A. PSNH is suggesting that some of the costs of purchasing power being provided to default service customers should either be paid by all customers or just by the customers who have migrated. Baumann prefiled testimony, page 9, lines 20-24.

**Q. Do you agree with what PSNH is suggesting ought to be done in light of this migration of customers ?**

A. I do not agree that the increase in costs that Mr. Baumann is referring to is an unintended result of restructuring. I believe that many of the additional costs may be the result of purchase power decisions that PSNH has made. Since the process that PSNH

follows is out of step with what other distribution companies in NH and New England follow when purchasing power to meet default customer demand, I believe the Commission should require PSNH to follow a different method going forward, similar to the methodology that other NH distribution companies follow. That process includes issuing open and competitive Requests for Proposals for supplemental power, if needed, on a schedule approved by the Commission.

**Q. Do you think it would be appropriate for PSNH to be able to pass costs of providing default service on to migrating customers ?**

A. No. I do not think that would be appropriate for the following reasons: 1) customers now have a statutory right to choose their electric supplier without bearing the burden of newly-imposed stranded costs from the local utility; 2) socialization of utility inefficiencies will not promote good operating practice; and 3) the costs in this instance result from power supply management decisions by PSNH and not any fault of the customer. PSNH's response to data request Staff 1-2, a copy of which is attached, shows the magnitude of the dollars at stake and the impact that its purchase power decisions can have.

**Q. Do you think that the power purchases that PSNH has made to serve default service customers have been reasonable or prudent ?**

A. No. As I argued in my prefiled testimony in DE 09-180, based on the costs per MWH of the purchases that PSNH has made that were used to serve default energy service customers in 2009 and 2010, it appears that many of the purchases may have been made either at or near the point of peak energy pricing in 2008. This suggests a lack of prudence on their part. Moreover, as we argued in DE 09-180, had PSNH

actually followed its own 2007 LCIRP the 2010 purchases would have been made "during May through the filing date of the final forecast (normally in November)" of 2009 and it would have been in a much better position to recognize the significant increase in customer migration, thereby scaling back its purchases, and it would have obtained much better pricing for the purchases it did make. As PSNH indicated during the proceeding, it did not review or utilize any private forecast services prior to making purchases of power, but it did review information publicly available from NYMEX and other similar organizations. While PSNH has refused to provide TransCanada with any detailed information about the power that it purchased and that has been used to supply default service customers, what is abundantly clear is that purchases made in January, August and September of 2008 were made at a significant premium to the prices PSNH would have paid if it had simply followed the strategy laid out in its own LCIRP. My understanding of PSNH's explanation for this abandonment of its LCIRP strategy is that it had a market view that prices seen in 2008 would increase in the future. This is called "market timing", a practice PSNH simultaneously claims it does not follow. PSNH had no reasonable explanation of whether it ever considered the possibility that prices could subsequently fall. The common sense problem with PSNH's market view is that ordinarily one would expect a demand response to such a sudden and sharp run-up in market prices ("market" in this case would include fuel markets which tend to drive electric prices), and there was no reason to rush into purchases for calendar year 2009 or 2010. Further, conforming to the LCIRP would have enabled PSNH to better assess customer migration as it made its supplemental purchases.

## Restructuring Principles

**Q. Do you think it would be consistent with restructuring principles included in the NH restructuring law for PSNH to pass the costs which they have identified on to migrating customers ?**

A. No. As I noted in my prefiled testimony in DE 10-180, I do not think that it would be consistent with restructuring principles for PSNH to pass costs associated with providing default service on to migrating customers. I pointed out a number of provisions in the NH restructuring law that I believe are relevant to this issue:

"When customer choice is introduced, services and rates should be unbundled to provide customers clear price information on the cost components of generation, transmission, distribution, and any other ancillary charges." RSA 374-F:3,III.

"Default service should be designed to provide a safety net and to assure universal access and system integrity. Default service should be procured through the competitive market and may be administered by independent third parties. Any prudently incurred costs arising from compliance with the renewable portfolio standards of RSA 362-F for default service or purchased power agreements shall be recovered through the default service charge. The allocation of the costs of administering default service should be borne by the customers of default service in a manner approved by the commission. If the commission determines it to be in the public interest, the commission may implement measures to discourage misuse, or long-term use, of default service." RSA 374-F:3,V(c).

"New Hampshire should move deliberately to replace traditional planning mechanisms with market driven choice as the means of supplying resource needs." RSA 374-F:3,XIV.

## What Should the Commission Require of PSNH Going Forward

**Q. Are there steps that PSNH could take to try to keep the costs down ?**

A. Yes. I believe that PSNH should use an open and competitive RFP process, procedurally similar to what Unitil and National Grid use, to obtain the power it needs to supplement the power that it obtains from its own generating assets in order to meet default service customer demand.

**Q. What is your understanding of how Unitil and National Grid procure power for default service ?**

A. It is my understanding that both Unitil and National Grid obtain the power they need to serve default customers through an RFP process.

**Q. What is your understanding of how PSNH's affiliate distribution companies in other states handle the procurement of power to meet default service needs ?**

A. It is my understanding that PSNH affiliates Connecticut Light & Power and Western Massachusetts Electric Company both use an RFP process to obtain the power needed to serve default service customers.

**Q. Has PSNH ever solicited TransCanada for the purpose of making wholesale power purchasers?**

A. No. TransCanada personnel have no record or memory of having been solicited for wholesale power purchases by PSNH, yet TransCanada is a significant New Hampshire generator of electricity and has won numerous competitive wholesale power solicitations with utilities throughout New England. TransCanada has won competitive solicitations from both Unitil and Granite State Electric in New Hampshire.

**Q. Are you familiar with the alternatives that the Office of Consumer Advocate has laid out in Mr. Traum's prefiled testimony in this docket ?**

A. Yes, I have reviewed Mr. Traum's testimony.

**Q. Do you wish to comment on the four alternative ideas that he proposed ?**

A. Yes, I will provide a brief summary of each alternative and my comments following each summary.

**Alternative #1** – that PSNH divest itself of its owned generation and contractual commitments for energy and then bid out its ES requirements for the different customer classes, using RFPs in a manner consistent with how UES and Grid currently manage their obligation to provide default ES. Alternatively, if PSNH retained its generation assets, it could sell their outputs (energy, capacity, etc.) into the wholesale market and then utilize the RFP model to provide default ES to its customers.

Comment on Alternative #1: TransCanada supports this as an alternative for further evaluation by all parties. Consideration needs to be given to the timing of a divestiture to ensure that the asset value is maximized for the benefit of PSNH's customers. The second option posed within this alternative - selling all the assets into the market and buying all load competitively – would result in two important benefits for PSNH's customers. First, competitive suppliers would manage the migration risk of PSNH's customers. Assuming PSNH would bid out their load by customer class, the less-mobile residential class would incur minimal to no migration risk premium, while the highly mobile larger customers would incur a higher risk premium. These customers could easily avoid this premium by signing with a competitive supplier. Second, each of PSNH's generating assets could be carefully examined for its market value on a regular

basis. If an asset was not attracting sufficient market revenues to cover its going forward costs, it would need to be considered for retirement.

**Alternative #2** - allocate or assign all of the costs, and the outputs (energy, capacity, etc.) from PSNH's units and contractual commitments to two general groups of customers: one group comprised of residential customers who have a low migration rate; the second group comprised of large commercial and industrial customers. The allocation methodology between the two groups would have to be determined. Under this approach PSNH, or another entity, would make purchase and sales decisions in order to develop separate ES rates and reconciliations for the two groups, rather than developing one rate as the Company does today.

Comment on Alternative #2: TransCanada believes this alternative offers the most potential to resolve PSNH's power supply management issues at this time. Simply said, PSNH's larger customers have numerous options available to them in the market. They do not need to rely on PSNH to reserve supply on their behalf. Other customers should not bear the cost of PSNH's attempts to maintain a "free option" for these larger customers to return to PSNH supply. PSNH needs to transition to a focus on maintaining a power supply only for its small customers, and carry larger customers (to the extent any remain) at monthly market rates.

**Alternative #3** - quantify the costs that PSNH incurs to manage its portfolio in a way that allows migrating customers to return on a month-to-month basis. Those costs could be recovered through a mechanism, perhaps similar to the current Stranded Cost Recovery Charge, that is paid by all customers, rather than being recovered through ES

which is only paid by customers who do not migrate. This would avoid at least some of the current cost shifting that is occurring, and would in essence require those who can and do migrate to pay for at least some of the additional costs they impose on default ES for the service of last resort option that it provides to them.

Comment on Alternative #3: TransCanada believes this alternative results in PSNH attempting to maintain a return option for its larger customers. As stated in our comment on alternative #2, this results in a completely unnecessary expense to preserve an unnecessary option.

**Alternative #4** – do not allow customers who choose a competitive supplier to return to service provided by the utility for a year due to capacity assignments. This would allow PSNH to develop a rate for those who do not migrate, as well as rates for those who have migrated but who return to default ES within the stay-out period. The rates for those who return would be more reflective of the costs of providing that service, which would avoid any subsidization of returning customers by captive customers. The OCA sees this approach as away to reduce any opportunity to game the system by migrating monthly to the detriment of non-migrating customers. This could be considered independently or in conjunction with other approaches.

Comment on Alternative #4: TransCanada believes that this alternative could be considered in conjunction with alternative #2.

## Conclusion

**Q. What is TransCanada's recommendation to the Commission in this docket ?**

A. Transcanada recommends that the Commission require PSNH, on a going forward basis, to follow an open and transparent RFP process like what Unitil and National Grid must follow for the purchase of power, modified as necessary to account for PSNH's present status as a generator.

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

A. Yes.

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Witness: David A. Errichetti
Request from: New Hampshire Public Utilities Commission Staff

Question:
Reference Baumann testimony, page 4, lines 15-18. Please quantify the annual costs attributable to "purchase power arrangements that were entered into to minimize future market exposure risk" for the years 2006 - 2010. For 2010, please provide actual amounts up to the most recent date available and forecasted amounts for the remainder of the year. For each year, please also provide the above-market portion of the total costs.

Response:
Please see table below for the requested information. The analysis looked at firm bilateral energy purchases of one month or greater duration which were typically captured in the rate setting proceedings and were meant to lock in power supply costs so as to minimize future market exposure risk. The above market costs were calculated as the difference between the firm bilateral energy purchase price and the day-ahead energy market clearing price at the contract delivery point times the contract quantity.

| Year | Purchase Costs | Above-Market Costs |
|---|---|---|
| 2006 | 242,378,478 | 89,793,546 |
| 2007 | 158,399,248 | 24,381,473 |
| 2008 | 178,366,008 | (21,331,297) |
| 2009 | 226,684,750 | 127,277,461 |
| 2010 (actual thru July) | 33,300,000 | 13,464,423 |
| 2010 (est. Aug thru Dec) | 24,300,000 | 10,051,800 |

* August to December, 2010 market value estimates are based on 7/30/10 broker quotes.

While comparing the contract price to the day-ahead energy market clearing price reflects what the contracts would be paid in the ISO-NE energy market settlement system, it is not necessarily indicative of how a third party buying power for a customer's future needs would act. As an alternative the 2009 calculation was redone assuming the firm bilateral energy purchases were made on the last day the contract term was traded. For example a 2009 calendar year purchase was priced based on end of December 2008 prices and a June 2009 purchase was priced based on end of May 2009 pricing. The 2009 above-market cost using this alternative market value approach would then be calculated as $93.4 million.

The analysis did not consider any firm bilateral energy sales of one month or greater that may have been made during this period.