

STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
RECONCILIATION OF ENERGY SERVICE AND STRANDED COSTS FOR

CALENDAR YEAR 2010

PREPARED TESTIMONY OF

ROBERT A. BAUMANN

ORIGINAL	
N.H.P.U.C. Case No.	DE 11-094
Exhibit No.	#1
Witness	Panel 1
DO NOT REMOVE FROM FILE	

- 1 **Q. Please state your name, business address and your present position.**
- 2 A. My name is Robert A. Baumann. My business address is 107 Selden Street, Berlin,
- 3 Connecticut. I am Director, Revenue Regulation & Load Resources for Northeast Utilities
- 4 Service Company (NUSCO) which provides centralized services to the Northeast Utilities
- 5 (NU) operating subsidiaries Public Service Company of New Hampshire (PSNH), The
- 6 Connecticut Light and Power Company, Yankee Gas Services Company and Western
- 7 Massachusetts Electric Company.
- 8 **Q. What are your responsibilities as Director - Revenue Regulation and Load Resources?**
- 9 A. I have overall responsibility for the planning and coordination of revenue requirement
- 10 filings for PSNH, and for the planning, coordination, and implementation of fuel and
- 11 generation recovery mechanisms and all other fuel recovery matters for the NU operating
- 12 companies, before regulatory commissions including the New Hampshire Public Utilities
- 13 Commission (PUC or the Commission).
- 14 **Q. Have you previously testified before the Commission?**
- 15 A. Yes. I have testified in numerous hearings for PSNH. I have also testified in proceedings
- 16 before the Connecticut Department of Public Utility Control and the Massachusetts
- 17 Department of Public Utilities, and the Federal Energy Regulatory Commission.
- 18 **Q. Will anyone else be providing testimony in support of this filing?**

1 A. Yes. PSNH continues to supply, through its own generating units, the electricity needs of
2 customers who elect to receive Energy Service. In support of this issue, the following
3 individuals will sponsor testimony in this proceeding:

4 William H. Smagula, Director - PSNH Generation will review the performance of PSNH's
5 fossil-hydro generation units and Frederick B. White, Supervisor - Power Supply Analysis
6 and Policy, NUSCO will review how PSNH met its energy and capacity requirements
7 during this reporting period given its level of resources.

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

9 A. The primary purpose of my testimony is to provide an overview of this filing and to seek
10 approval of the reconciliation between the revenues and expenses contained within PSNH's
11 Energy Service (ES) and Stranded Cost Recovery Charge (SCRC) filings for the twelve-
12 month reporting period January 1, 2010 through December 31, 2010 ("reporting period").

13 **Q. What are the final results for ES and SCRC in the 2010 reporting period?**

14 A. For ES, the net balance as of December 31, 2010 is an under-recovery of \$10.4 million.
15 Over \$3 million of the under-recovery is due to the timing of receipt of Merrimack RPC
16 insurance proceeds, as compared to the level assumed in the ES rate update effective
17 7/1/10. The insurance proceeds were expected to be received in December 2010 but were
18 delayed and now are anticipated to be received sometime in 2011. The remaining under-
19 recovery is primarily due to higher O&M overheads and return on rate base and changes in
20 revenue levels compared to the levels contained in the forecast used to support the 7/1/10
21 ES rate. Supporting calculations are contained in Attachment RAB-3 and Attachment
22 RAB-4, page 6.

23 For SCRC, the net balance as of December 31, 2010 is an over-recovery of \$2.4 million.
24 The \$2.4 million net over-recovery was primarily due to higher actual sales than forecasted
25 and a \$0.8 million decrease in the Yankee contract obligation. Supporting calculations are
26 contained in Attachment RAB-4, page 1.

27

1 **Q. Please describe the ratemaking framework that began on May 1, 2001.**

2 On May 1, 2001 (Competition Day), PSNH began to recover costs under the Restructuring
3 Settlement. Under the terms of the Restructuring Settlement, PSNH continues to recover
4 costs related to the generation and delivery of electricity, but the specific rate structure now
5 in place segments recovery into various components. The four major components of that
6 segmentation are the Delivery Charge, the Transmission Cost Adjustment Mechanism
7 (TCAM), the SCRC, and the ES Charge. Two of the major interrelated rate components,
8 the SCRC and the ES are the subject of this proceeding.

9 **Energy Service Charge**

10 **Q. Explain how the SCRC and the ES Charge interrelate.**

11 A. Through January 31, 2006, the ES rate recovery was a subset of the SCRC. The difference
12 between ES revenues and ES costs was accounted for and included as an adjustment to Part
13 3 non-securitized stranded costs, which was a component of the SCRC. Effective February
14 1, 2006, ES reconciliation amounts were no longer applied to the SCRC. Instead, ES
15 reconciliation amounts were deferred and applied to future ES rates per Order No.
16 24,579 in Docket No. DE 05-164.

17 The SCRC recovers all costs that qualify as stranded and will be described later in this
18 testimony.

19 **Q. Please describe the ES recovery mechanism.**

20 A. Under restructuring, customers have a choice regarding their energy supplier. Customers
21 may contract and obtain energy on their own, or they may choose to continue to receive
22 their energy from PSNH.

23 Under the terms of the Restructuring Settlement and subsequent legislation, PSNH is
24 required to provide ES to those customers who request it. Initially, ES rates were set by
25 statute. Beginning in February 2003, the ES rate for large commercial and industrial
26 customers (Group 2) was based on PSNH's forecast of "actual, prudent and reasonable
27 costs" (4.67 cents). Beginning in February 2004, the ES rate for all retail customers was

- 1 based on a forecast of “PSNH’s actual, prudent, and reasonable cost of service”. The chart
 2 below shows the ES rates per kWh which have been in effect since Competition Day.

Rate in Effect:	Rate Set By: Statute or Docket No.	Residential, Small Commercial/Industrial Customers (RSCI)	Large Commercial/ Industrial Customers (LCI)
May 1, 2001 - January 31, 2003	Statute	4.40 cents	4.40 cents
February 1, 2003 - January 31, 2004	RSCI – Statute LCI-DE 02-166	4.60 cents	4.67 cents
February 1, 2004 - July 31, 2004	DE 03-175	5.36 cents	5.36 cents
August 1, 2004 - January 31, 2005	DE 03-175	5.79 cents	5.79 cents
February 1, 2005 - July 31, 2005	DE 04-177	6.49 cents	6.49 cents
August 1, 2005 - January 31, 2006	DE 04-177	7.24 cents	7.24 cents
February 1, 2006 - June 30, 2006	DE 05-164	9.13 cents	9.13 cents
July 1, 2006 - December 31, 2006	DE 05-164	8.18 cents	8.18 cents
January 1, 2007 - June 30, 2007	DE 06-125	8.59 cents	8.59 cents
July 1, 2007 – December 31, 2007	DE 06-125	7.83 cents	7.83 cents
January 1, 2008 - June 30, 2008	DE 07-096	8.82 cents	8.82 cents
July 1, 2008 - December 31, 2008	DE 07-096	9.57 cents	9.57 cents
January 1, 2009 - July 31, 2009	DE 08-113	9.92 cents	9.92 cents
August 1, 2009 - December 31, 2009	DE 08-113	9.03 cents	9.03 cents
January 1, 2010 - June 30, 2010	DE 09-180	8.96 cents	8.96 cents
July 1, 2010 - December 31, 2010	DE 09-180	8.78 cents	8.78 cents
January 1, 2011 - June 30, 2011	DE 10-157	8.67 cents	8.67 cents

1 **Q. Please describe the costs incurred in providing ES to customers during the twelve-**
2 **month reporting period.**

3 A. ES costs include the fuel costs associated with PSNH's generation as well as costs and
4 revenues from energy and capacity purchases and sales, New Hampshire Renewable
5 Portfolio Standard costs (RSA Chapter 362-F), Regional Greenhouse Gas Initiative costs
6 (RGGI) (RSA 125-O:19-125-O:28), and IPP power valued at market prices. In addition,
7 ES costs include the non-fuel costs of generation including non-fuel O&M, depreciation,
8 property taxes and payroll taxes, uncollectible costs attributable to ES sales, and a return on
9 the net generation investment. These are all costs associated with PSNH's ownership of
10 generation. Detailed information on the cost of generation is included in Attachment RAB-
11 3 and Attachment RAB-4, page 6.

12 **Q. For the twelve-month reporting period covered in this filing, how have the ES rates,**
13 **as outlined in your table, compared to the actual costs of supplying power during the**
14 **same periods ?**

15 A. In attachment RAB-3, we have calculated that the average ES cost for 2010 was
16 approximately 8.98 cents per kWh.

17 PSNH's owned generation for the year continued to operate well and provided
18 approximately 64% of PSNH's energy needs. Mr. Smagula provides further detailed
19 testimony regarding specific units and their performance during 2010. When combined
20 with IPP purchases, IPP buyout replacement purchases, Lempster and the Vermont Yankee
21 purchased power arrangements, which cumulatively contributed another 13% of energy
22 requirements; PSNH met 77% of its energy needs with sources other than market
23 purchases. The remaining 23% of PSNH's energy needs were met by spot market
24 purchases (8%) and bilateral energy purchases (15%).

25
26 In its initial decision in Docket No. DE 03-175 (Order No. 24,252), the Commission
27 reiterated its desire to avoid ES cost deferrals. As a way to minimize these deferrals, the
28 Commission provided any interested party with the option of making an interim ES rate
29 filing, with the objective of setting a revised ES rate. In June 2010, PSNH filed such a
30 petition with the Commission requesting an interim decrease to the existing ES rate. A rate

decrease was granted by the Commission (Docket No. DE 09-180, (Order No. 25,121) resetting the ES rate from 8.96 cents per kilowatt-hour to 8.78 cents per kilowatt-hour for all customer classes effective July 1, 2010. This new rate remained in effect through December 2010. The net ES deferral for the twelve months ended December 2010 was an under-recovery of \$10.4 million as calculated in Attachment RAB-4, page 6.

Stranded Cost Recovery Charge

Q. Please describe the SCRC and its components in more detail.

A. The SCRC recovers costs categorized as “stranded” by New Hampshire law in RSA Chapters 374-F and 369-B. The initial SCRC average rate of 3.4 cents per kWh was agreed to in the Restructuring Settlement which further defined what PSNH’s stranded costs were and categorized them into three different parts (i.e. Parts 1, 2, and 3) based on their priority of recovery. Effective June 30, 2006 Part 3 costs were fully recovered.

Q. Please describe the costs that are recovered through the SCRC.

A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs have been securitized through the issuance of rate reduction bonds (RRBs). Part 1 costs consist of the over-market portion of Seabrook regulatory assets, a portion of PSNH’s share of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees, legal fees, etc.) while obtaining the RRB financing. RRB interest and RRB fees are also recovered as Part 1 costs. Page 4 of Attachment RAB-4 shows the recovery of Part 1 costs by month.

The second tier, Part 2 stranded costs, includes “ongoing” costs consisting of the over-market value of energy purchased from IPPs and the up-front payments made for IPP buy-downs and buyouts previously approved by the Commission, and PSNH’s share of the present value of the savings associated with these buy-down and buy-out transactions. PSNH is amortizing these up-front payments over the respective terms of the original IPP rate orders, including a return on the unrecovered costs.

In addition, Part 2 costs include a negative return on the credit for deferred taxes related to the Part 1 securitized stranded costs and a return on the unpaid contract obligations to Connecticut Yankee Atomic Power Co., Maine Yankee Atomic Power Co., and Yankee

1 Atomic Energy Corp., net of related deferred taxes. Page 5 of Attachment RAB-4 shows
2 the detailed Part 2 costs by month.

3 **Q. What is your estimate of how long PSNH will continue to bill the SCRC?**

4 A. The response to this question varies depending on the type of cost. Part 1 costs are
5 recovered through the SCRC over the life of the corresponding terms of the rate reduction
6 bonds. Part 1 recovery is expected to end in May 2013 when PSNH expects that the RRBs
7 will have been paid off.

8 The timing of Part 2 cost recovery through the SCRC is dependent on the type of cost.
9 There are several types of Part 2 costs: ongoing purchases from the IPPs; the amortization
10 of up-front payments associated with buyouts or buydowns of IPP rate orders or contracts;
11 and various returns, including (1) the return on the credit for Part 1 related deferred taxes,
12 (2) returns on Part 2 stranded costs and the outstanding Yankee contract obligations, (3) the
13 return on SCRC deferred balance.

14 Ongoing IPP purchases are obligations that will end when the various rate orders or
15 contracts expire. The up-front payments associated with buyouts or buydowns of IPP rate
16 orders or contracts are also being amortized over the remaining life of the respective rate
17 order or contract. The last such rate order or contract expires in the early 2020s. However,
18 most wood-burning IPP rate orders expired in late 2006 with the last rate order for a wood-
19 fired IPP expiring in 2008. Therefore, Part 2 costs have decreased and will continue to
20 decrease as those rate orders expire. In addition, the credit for Part 1 related deferred taxes
21 pertaining to RRBs will end in 2013 once all Part 1 costs are fully recovered.

22 **Q. Please provide an overview of stranded cost recovery during the 2010 reporting**
23 **period.**

24 A. During the reporting period, the total accumulated balance of Part 1 and 2 costs was
25 reduced by \$58 million from \$197 million at the end of 2009 to \$139 million at the end of
26 2010. See Attachment RAB-4, page 1.

27 **Q. Was there activity through the Seabrook Power Contracts in 2010 that affected the**
28 **Seabrook net proceeds figure?**

29 A. Yes. There have been minor credits to NAEC in 2010 that increased Seabrook net

1 proceeds on a cumulative basis by \$75 thousand. See Attachment RAB-4, page 7. While
2 there may be additional charges and credits in 2011 that will further impact the net
3 proceeds figure, we do not expect these amounts to be significant. However, we are unable
4 to quantify these charges and credits at this time.

5 **Q. Will these Seabrook-related subsequent charges and credits be passed on to PSNH?**

6 A. Yes, the Seabrook Power Contracts between PSNH and NAEC are still in place for
7 Seabrook sale reconciliation purposes.

8 **Q. Did PSNH file a summary of 2010 benefits for the Northern Wood Power project**
9 **(NWPP)?**

10 A. Yes. Attachment RAB-4, page 11 provides the NWPP revenue target as well as the
11 projected incremental revenues based on Schiller Unit 5 generation, consisting of
12 Renewable Energy Certificates (RECs), Production Tax Credit (PTCs) and RGGI avoided
13 costs. These 2010 credits will be trued up to actual in the 2011 ES/SCRC filing.

14 **Q. Please summarize your request to the Commission.**

15 A. PSNH is requesting that the Commission approve the 2010 SCRC and ES reconciliations
16 and find that PSNH's costs were prudently incurred.

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

18 A. Yes, it does.