

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-215

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Interim Adjustment to Default Energy Service Rate

Order Following Hearing

ORDER NO. 25,380

June 27, 2012

APPEARANCES: Sarah B. Knowlton, Esq. on behalf of Public Service Company of New Hampshire; the Office of Consumer Advocate by Rorie E.P Hollenberg, Esq. on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On May 2, 2012, Public Service Company of New Hampshire (PSNH) filed a request with supporting testimony and schedules to adjust its energy service rate effective with service rendered on and after July 1, 2012. The proposed energy service rate does not include costs associated with the wet flue gas desulphurization system (Scrubber) installed at PSNH's Merrimack Station which are being separately reviewed in Docket DE 11-250. At the time of the filing, PSNH estimated that the revised non-Scrubber portion of the energy service rate would be 6.85 cents per kilowatt-hour (kWh), a decrease from the current non-Scrubber energy service rate of 7.77 cents per kWh. PSNH stated that the proposed decrease in the non-Scrubber energy service rate is primarily due to lower market prices than the level reflected in the current energy service rate. PSNH said that it would file updated calculations of the energy service rate prior to hearing to reflect the actual results for April and May 2012.

The Office of Consumer Advocate filed a letter on October 12, 2011 in the first stage of this proceeding, stating that it would participate in this docket on behalf of residential ratepayers pursuant to RSA 363:28.

The Commission issued an Order of Notice on May 11, 2012 scheduling a hearing for June 19, 2012. On June 12, 2012, PSNH filed an updated non-Scrubber energy service rate with a technical statement and revised schedules.

II. POSITIONS OF THE PARTIES

A. Public Service Company of New Hampshire

PSNH testified that energy service costs include generation asset revenue requirements, entitlements and purchased power obligations, including the fuel used for generation; costs and revenues associated with market purchases and sales; New Hampshire Electric Renewable Portfolio Standard compliance costs (RSA 362-F); Regional Greenhouse Gas Initiative costs (RSA 125-O:19-28); independent power producer (IPP) power valued at market prices; and non-fuel operation and maintenance costs, property taxes and payroll taxes, depreciation, uncollectible costs attributable to energy service, and a return on net generation investment.

In its June 12, 2012 update, PSNH proposed a non-Scrubber energy service rate calculation of 6.95 cents per kWh, an increase of 0.10 cents per kWh from the initial rate of 6.85 cents per kWh estimated by the Company. PSNH attributed the increase to an increase in actual and forecast market prices for power.

PSNH testified that the proposed rate of 6.95 cents per kWh is a decrease from the current non-Scrubber energy service rate of 7.77 cents per kWh. The Commission approved that current non-Scrubber energy service rate in Order 25,346 (April 10, 2012) in Docket DE 11-250,

the docket opened for the purposes of investigating the costs and cost recovery for the installation of the Scrubber at PSNH's Merrimack Station. Order No. 25,346 also established a temporary Scrubber rate of 0.98 cents per kWh. The temporary Scrubber rate of 0.98 cents per kWh added to the proposed non-Scrubber rate of 6.95 cents per kWh results in a total proposed energy service rate of 7.93 cents per kWh. The proposed rate would be a decrease of 0.82 cents per kWh from the currently effective combined energy service rate of 8.75 cents per kWh.

PSNH attributed the decrease to two primary factors: (1) sale of an amount of oil inventory which resulted in a credit of \$8.5 million to default energy service rates, and (2) a partial refund of an over-collection of \$40 million in energy service revenues. In its filing, PSNH proposed to credit the \$40 million over-collection to default energy service rates over a period of 18 months beginning with rates for effect July 1, 2012 for purposes of smoothing expected changes in the energy service rate over that period of time. The Company testified that if the entire over-recovery was credited to default service rates beginning on July 1, 2012, the non-Scrubber portion of the energy service rate would drop to 6.13 cents per kWh, with an estimated potential increase back to 7.5 cents per kWh in 2013, depending on market prices. PSNH said that it expected that the Scrubber portion of the energy service rate will increase following the conclusion of the proceeding in Docket No. DE 11-250, which would further increase energy service rates for 2013. PSNH opined that a radical swing in rates is not in the best interest of customers, and that its proposal to defer a portion of the over-recovery provides reasonable rate continuity for the foreseeable future.

PSNH responded to numerous questions at hearing regarding its customer migration forecast, depreciation and capacity factors experienced by fossil fuel generation plants that were

included in its filing, and the measures that the Company was taking to economize in the operation of its generation units to manage costs for default energy service customers. PSNH testified that the customer migration rate used in its initial filing assumed that 36% of customer load had switched to the competitive market for supply, based on migration levels as of March 2012. In its June 12, 2012 filing, PSNH assumed that 38% of customer load had migrated to competitive supply, based on migration levels as of May 23, 2012. At hearing, PSNH said that the most recent calculation of customer migration was 38.5% as of the end of May. Responding to inquiry, PSNH said that it did not forecast customer migration but preferred to use the actual current customer migration rate in developing its forecast because the Company did not want to influence customer migration rates by projecting a certain level for the future which would impact cost and revenue projections.

The OCA observed that PSNH's generation units' depreciation rates was a subject discussed at the December 19, 2011 hearings in the instant docket. The OCA asserted and PSNH agreed that PSNH's 2012 reconciliation proceeding would be an appropriate docket in which to review PSNH's update to depreciation rates that impacted the 2012 energy service rate. Hearing Transcript of June 19, 2012 (6/19/2012 Tr.) at 22-23.

Staff asked PSNH to explain an expense associated with the cancellation of certain contracted coal deliveries. PSNH said that when the price of power on the market is less than the price of power generated by the coal units, the Company saves money by purchasing power on the market rather than running its coal-fired plants for energy production. That being the case, the Company decided not to take delivery of certain coal and attempted to sell the coal in the market for other purposes. When such a sale did not materialize, PSNH incurred an expense of

\$2.3 million for cancelling the delivery, pursuant to the terms of the contract for the purchase of coal. That expense, however, was offset by a larger amount of savings in energy expenses, resulting in a net benefit to customers. *Id.* at 39-41.

Staff also inquired about the projected changes in the operation of PSNH's coal units in 2012. PSNH said it forecasted reduced operation of its coal units for the remainder of 2012 because it is expected to be more economical at times to purchase power on the market than to operate the plants to serve load. PSNH agreed with Staff that the coal units have historically been considered base load units, but PSNH testified that it does not expect those units to be running over the course of a year as a base load unit would typically run. *Id.* at 43-44.

Staff noted that the response to Staff Set 2, question number 11 (contained in Exh. 14) provided a general description of the impact of the reduced operation of PSNH's fossil units on employment levels at the plant. *Id.* at 46. The Company testified that based on the price of different fuel commodities and the economy, PSNH has assessed the staffing needs as well as its maintenance and capital budget to align the expenses and costs of its fossil fuel units with each unit's capacity factor and the market. *Id.* at 50. PSNH said that while it had not filled open positions at the fossil fuel generation units, the Company did not have a formal plan or process whereby it reviewed staffing needs or unit operations to reduce costs to reflect the reduced operations of its fossil fuel plants. *Id.* at 52 and 86.

B. Office of Consumer Advocate

The OCA stated that 100% of the over-collection should be applied to rates for effect July 1, 2012 to most closely match the over-recovery to the time in which it occurred and to mitigate year-end over recoveries. The OCA also said that it agreed that the depreciation rates

for PSNH's generation plants could be reviewed in PSNH's reconciliation docket regarding calendar year 2012. The OCA stated that it otherwise had no objection to the filing.

C. Commission Staff

The Staff said it did not support the request as filed. Staff recommended that the Commission allocate the full over-recovery of \$40 million to energy service rates to take effect July 1, 2012.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV(b)(I) (A), the price for PSNH's energy service shall be PSNH's actual, prudent and reasonable costs of providing the power, as approved by the Commission. Based on our review of the petition and the evidence in the record, we find that the calculations and related documentation support PSNH's request for a mid-term adjustment to its energy service rate. We disagree, however, with the Company's proposal to defer the \$40 million over-recovery to rates over an 18-month period.

RSA 369-B:3, IV(b)(I) (A) requires the Commission to consider PSNH's "actual" costs for providing power, which in this case includes the over-recovery that the Company estimates for calendar year 2012. In the hearing in Docket DE 11-217, regarding the proposed mid-year adjustment to PSNH's stranded cost recovery (SCRC), the Company took the position that a forecasted \$26 million under-recovery of SCRC costs for 2012 should be recovered over the remainder of 2012, to match the under-recovery to the time period in which it occurred. Transcript in Docket DE 11-217, June 19, 2012, at 25. We find that it is appropriate and consistent with RSA 369-B:3, IV(b)(I) (A) and the Company's position in Docket DE 11-217 to match any over- or under- recoveries in energy service revenues with the time period in which

they incur. Consequently, we deny PSNH's request to defer the over-recovery in energy service revenues. Instead, we require the Company to apply the entire \$40 million over-collection to energy service rates for effect July 1, 2012, which results in a non-Scrubber rate of 6.13 cents per kWh, using PSNH's calculations.

We also direct the Staff to review PSNH's revised 2012 depreciation rates for its generation units in the Company's reconciliation proceeding for calendar year 2012.

Finally, we direct the Company to undertake a systematic review of operation, materials and capital costs, including personnel costs, associated with the operations of its fossil fuel plants given the low capacity factors of these units in recent years and the current expectation of them remaining low over the next few years. The review should also include any costs that are billed to the fossil plants such as engineering and regulatory support. PSNH shall provide details regarding its review and analysis at the time it makes its next energy service rate filing. The Company shall also provide actual cost calculations for calendar year 2011 and develop an updated forecast of costs and expenses associated with the operation of its fossil fuel plants for calendar years 2012 and 2013 for the Commission's review and evaluation. For the units at Merrimack Station, the directive is limited to non-Scrubber related operations and other costs.

This is one of several orders we are issuing for PSNH rates for effect with service rendered on and after July 1, 2012: the instant proceeding, an adjustment to PSNH's energy service charge; Docket DE 12-110, distribution rates for additions to net plant and consultant costs, and an adjustment to collections to be deposited in PSNH's major storm reserve; Docket DE 11-217, PSNH's a mid-year adjustment to PSNH's stranded cost recovery charge; and Docket DE 12-159, an adjustment to PSNH's transmission cost adjustment mechanism. Overall,

the average total bill impact of these rate changes effective July 1, 2012 is an approximate decrease of 4.4 % for a PSNH customer who takes energy service from PSNH (i.e., the customer does not purchase energy from a competitive supplier). We find these rates to be just and reasonable pursuant to RSA 378:7.

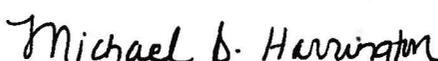
Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire is authorized to adjust the non-Scrubber portion of its energy service rate from 7.77 cents per kWh to 6.13 cents per kWh effective with service rendered on and after July 1, 2012; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff pages pursuant to Puc Part 1603 that conform with this order within 30 days hereof.

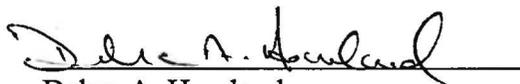
By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2012.


Amy D. Ignatius
Chairman


Michael D. Harrington (KNS)
Commissioner


Robert R. Scott (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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