

**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 2011**

**PREPARED TESTIMONY OF
ROBERT A. BAUMANN**

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

7 **Q. What are your responsibilities as Director - Revenue Regulation and Load Resources?**

8 A. I have overall responsibility for the planning and coordination of revenue requirement filings for
9 PSNH, and for the planning, coordination, and implementation of fuel and generation recovery
10 mechanisms and all other fuel recovery matters for the NU operating companies, before regulatory
11 commissions including the New Hampshire Public Utilities Commission (PUC or the
12 Commission).

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

14 A. Yes. I have testified in numerous hearings for PSNH. I have also testified in proceedings before
15 the Connecticut Public Utilities Regulatory Authority and the Massachusetts Department of Public
16 Utilities, and the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony?

A. The primary purpose of my testimony is to provide an overview of this filing and to seek approval of the reconciliation between the revenues and expenses contained within PSNH's Energy Service (ES) and Stranded Cost Recovery Charge (SCRC) rate filings for the twelve-month reporting period January 1, 2011 through December 31, 2011 ("reporting period").

Q. Will anyone else be providing testimony in support of this filing?

A. Yes.

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

Q. What are the final results for ES and SCRC in the 2011 reporting period?

A. For ES, the net balance as of December 31, 2011 is an under-recovery of \$13.3 million. \$13.1 million of the under-recovery relates to the deferral of costs of the Wet Flue Gas Desulfurization System (Scrubber) at Merrimack Station which were incurred from September 28, 2011 – December 31, 2011 but which were not approved by the Commission to be included in 2011 ES rates. The Scrubber was operational on September 28, 2011. The costs associated with the Scrubber are currently being considered in Docket No. DE 11-250 (Investigation of Scrubber Costs and Cost Recovery) and thus are not being addressed in this filing. Supporting calculations are contained in Attachment RAB-3 and Attachment RAB-4, page 6.

For SCRC, the net balance as of December 31, 2011 is an under-recovery of \$1.5 million. The under-recovery primarily relates to higher than forecasted above-market IPP costs. Supporting calculations are contained in Attachment RAB-4, page 1.

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

A. On May 1, 2001 (Competition Day), PSNH began to recover costs under the Restructuring Settlement. Under the terms of the Restructuring Settlement, PSNH continues to recover costs related to the generation and delivery of electricity, but the specific rate structure now in place segments recovery into various components. The four major components of that segmentation are the Delivery Charge, the Transmission Cost Adjustment Mechanism (TCAM), the SCRC, and the

1 ES Charge. Two of the major interrelated rate components, the SCRC and the ES are the subject
2 of this proceeding.

3 **Energy Service Charge**

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

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

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

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

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

15 Under the terms of the Restructuring Settlement and subsequent legislation, PSNH is required to
16 provide ES to those customers who request it. Initially, ES rates were set by statute. Beginning in
17 February 2003, the ES rate for large commercial and industrial customers (Group 2) was based on
18 PSNH's forecast of "actual, prudent and reasonable costs" (4.67 cents). Beginning in February
19 2004, the ES rate for all retail customers was based on a forecast of "PSNH's actual, prudent, and
20 reasonable cost of service". The chart below shows the ES rates per kWh which have been in
21 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 10-257	8.67 cents	8.67 cents
July 1, 2011 - December 31, 2011	DE 10-257	8.89 cents	8.89 cents
January 1, 2012 – March 31, 2012	DE 11-215	8.31 cents	8.31 cents
April 1, 2012 – June 30, 2012 Temporary Rate	DE 11-250	8.75 cents	8.75 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. Also included are costs related to
5 the New Hampshire Renewable Portfolio Standard and the Regional Greenhouse Gas
6 Initiative (RGGI). Finally, additional costs include costs associated with IPP power valued
7 at market prices, ownership of generation such as non-fuel O&M, depreciation, property
8 taxes and payroll taxes, and a return on the net generation investment. Detailed
9 information on the cost of generation is included in Attachment RAB-3 and Attachment
10 RAB-4, page 6.

11 **Q. Are Scrubber costs included in the final results of the reporting period for Energy**
12 **Service?**

13 A. Yes. The Scrubber was operational and used and useful on September 28, 2011. The
14 Scrubber costs relate to the return on the Scrubber, rate base, depreciation, property tax
15 and Scrubber-related O&M, fuel and avoided SO2 costs effective September 28, 2011. We
16 do not seek approval of these costs in this docket.

17 **Q. Has recovery of the cost of the Scrubber through ES rates commenced for the period**
18 **January 1, 2011 through December 31, 2011?**

19 A. No, the costs of the Scrubber were not recovered in rates for 2011. The Commission
20 opened Docket No. DE 11-250 - Investigation of Merrimack Station Scrubber Project
21 and Cost Recovery to address the issue of Scrubber cost recovery. While the
22 Commission recently approved temporary rates in that docket effective April 16,
23 2012, those rates are not reflected here since they were not approved during the
24 reporting period.

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

28 A. In attachment RAB-3, we have calculated that the average ES cost for 2011 was
29 approximately 8.84 cents per kWh.

1 PSNH's owned generation for the year continued to operate well and provided
2 approximately 52% of PSNH's energy needs. Mr. Smagula provides further detailed
3 testimony regarding specific units and their performance during 2011. When combined
4 with IPP purchases, IPP buyout replacement purchases, Lempster and the Vermont Yankee
5 purchased power arrangements, which cumulatively contributed another 14% of energy
6 requirements; PSNH met 66% of its energy needs with sources other than market
7 purchases. The remaining 34% of PSNH's energy needs were met by spot market
8 purchases (19%) and bilateral energy purchases (15%).

9 In its initial decision in Docket No. DE 03-175 (Order No. 24,252), the Commission
10 reiterated its desire to avoid ES cost deferrals. As a way to minimize these deferrals, the
11 Commission provided any interested party with the option of making an interim ES rate
12 filing, with the objective of setting a revised ES rate. In June 2011, PSNH filed such a
13 petition with the Commission requesting an interim increase to the existing ES rate. A rate
14 increase was granted by the Commission (Docket No. DE 10-257, (Order No. 25,242))
15 resetting the ES rate from 8.67 cents per kilowatt-hour to 8.89 cents per kilowatt-hour for
16 all customer classes effective July 1, 2011. This new rate remained in effect through
17 December 2011. The net ES deferral for the twelve months ended December 2011 was an
18 under-recovery of \$13.3 million as calculated in Attachment RAB-4, page 6.

19 **Stranded Cost Recovery Charge**

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

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

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

27 A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs
28 have been securitized through the issuance of rate reduction bonds (RRBs). Part 1 costs
29 consist of the over-market portion of Seabrook regulatory assets, a portion of PSNH's
30 share of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees,

1 legal fees, etc.) while obtaining the RRB financing. RRB interest and RRB fees are also
2 recovered as Part 1 costs. Page 4 of Attachment RAB-4 shows the recovery of Part 1 costs
3 by month.

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

10 In addition, Part 2 costs include a negative return on the credit for deferred taxes related to
11 the Part 1 securitized stranded costs and a return on the unpaid contract obligations to
12 Connecticut Yankee Atomic Power Co., Maine Yankee Atomic Power Co., and Yankee
13 Atomic Energy Corp., net of related deferred taxes. Page 5 of Attachment RAB-4 shows
14 the detailed Part 2 costs by month.

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

16 A. That depends on the type of cost. Part 1 costs are recovered through the SCRC over the
17 life of the corresponding terms of the rate reduction bonds. Part 1 recovery is expected to
18 end in May 2013 when PSNH expects that the RRBs will have been fully amortized.

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

25 Ongoing IPP purchases are obligations that will end when the various rate orders or
26 contracts expire. The up-front payments associated with buyouts or buydowns of IPP rate
27 orders or contracts are also being amortized over the remaining life of the respective rate
28 order or contract. The last such rate order or contract expires in the early 2020s. However,
29 most wood-burning IPP rate orders expired in late 2006 with the last rate order for a wood-

1 fired IPP expiring in 2008. Therefore, Part 2 costs have decreased and will continue to
2 decrease as those rate orders expire. In addition, the credit for Part 1 related deferred taxes
3 pertaining to RRBs will end in 2013 once all Part 1 costs are fully recovered.

4 **Q. Please provide an overview of stranded cost recovery during the 2011 reporting**
5 **period.**

6 A. During the reporting period, the total accumulated balance of Part 1 and 2 costs was
7 reduced by \$51 million from \$139 million at the end of 2010 to \$87 million at the end of
8 2011. See Attachment RAB-4, page 1.

9 **Q. Was there activity through the Seabrook Power Contracts in 2011 that affected the**
10 **Seabrook net proceeds figure?**

11 A. Yes. There have been credits to NAEC in 2011 that increased Seabrook net proceeds on a
12 cumulative basis by \$237,000. See Attachment RAB-4, page 7. While there may be
13 additional charges and credits in 2012 that will further impact the net proceeds figure, we
14 do not expect these amounts to be significant. However, we are unable to quantify these
15 charges and credits at this time.

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

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

19 **Q. Did PSNH file a summary of 2011 benefits for the Northern Wood Power project**
20 **(NWPP)?**

21 A. Yes. Attachment RAB-4, page 11 provides the NWPP revenue target as well as the
22 projected incremental revenues based on Schiller Unit 5 generation, consisting of
23 Renewable Energy Certificates (RECs), Production Tax Credit (PTCs) and RGGI avoided
24 costs. These 2011 credits will be trued up to actual in the 2012 ES/SCRC filing.

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

26 A. PSNH is requesting that the Commission approve the 2011 SCRC and ES reconciliations
27 and find that PSNH's non-Scrubber costs were prudently incurred.

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

2 **A. Yes, it does.**