BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

PETITION FOR REVIEW OF THE REASONABLENESS OF CERTAIN CHARGES OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE FOR SERVICES TO COMPETITIVE SUPPLIERS

DE 12-295

# DIRECT TESTIMONY OF TAFF TSCHAMLER FOR NORTH AMERICAN POWER AND GAS, LLC.

**Q. PLEASE STATE YOUR NAME, EMPLOYER, JOB TITLE AND BUSINESS ADDRESS.**

A. My name is Taff Tschamler, I am Senior Vice President of Business Development at North American Power and Gas, LLC ("NAPG" or the "Company"), a retail energy supplier that the New Hampshire Public Utilities Commission ("PUC" or "Commission") granted Competitive Electric Power Supplier ("CEPS") status in New Hampshire. My business address is 20 Glover Avenue, Norwalk, Connecticut.

**Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT FOR NAPG?**

A. I am primarily responsible for expanding NAPG's growth. I lead initiatives to enter new markets, roll out new products and implement operational improvements. In addition, I play a leadership role in many of the Company's key strategic initiatives, including public policy initiatives, capital raising and development of new business partnerships.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE PRIOR TO NAPG?**

**A.** I have 20 years of experience in the energy industry with a wide range of analytical, management and strategy roles. Immediately prior to coming to NAPG, I served as Director of the retail energy practice at KEMA, a global consulting firm. At KEMA I was in charge of its retail energy advisory service, performance benchmarking service and its retail energy consulting business. In this capacity, I advised senior management of numerous retailers, utilities and investors on market conditions, policy developments, investment opportunities and growth strategies in the competitive energy business. I hold a Bachelor's degree in Economics from the University of Maine and a Master of Public Policy degree from the College of William & Mary.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A.** The purpose of my testimony is to address the reasonableness of Public Service Company of New Hampshire ("PSNH") charges assessed on CEPSs and the underlying policy rationale. In addition, I offer recommendations for the Commission to evaluate and change the CEPS charges.

**Q. WHAT ARE THE CHARGES IN QUESTION?**

**A.** The Commission was asked to review the following charges that are part of PSNH's Electricity Delivery Service Tariff—NHPUC No. 8 Original Pages 31 through 40:

(1) the $ 5.00 per request "Selection Charge" is assessed by PSNH to a CEPS for enrolling a customer and assessed again when a customer leaves CEPS supply service (for a new CEPS or PSNH default service);

(2) the $0.50 per bill "Billing and Payment Service Charge" which is assessed by PSNH to a CEPS for each bill sent to customers that are supplied by a CEPS; and

(3) the "Collection Services Charge" which is billed at 0.252% of total monthly receivable dollars.

The PSNH tariff also contains several other charges applied to CEPS, such as the "Supplier Customer Service Charge." These other charges are not addressed in the original petition or the Commission's Order of Notice. I do not address these charges in my testimony. For the purposes of my testimony, the three charges identified in (1), (2) and (3) above are referred to as "the CEPS Charges."

**Q. UNDER WHAT BASIS AND METHODOLOGY WERE THE PSNH CEPS CHARGES DETERMINED?**

**A.** To the best of my knowledge, based on electronically available Commission decisions, the CEPS Charges were proposed by PSNH without opposition as part of the global multi-party 1999-2000 electric restructuring settlement approved by the Commission. See PSNH Proposed Restructuring Settlement, Order No. 23,443, pp. 258-59 (2000). The charges were carried forward in subsequent rate settlements, again without any opposition, and before the development of established stakeholders in the New Hampshire residential retail market. It is not clear from Order No. 23,443 the extent to which these rates were substantively reviewed by the Commission, if at all. Nonetheless, the Commission has not reviewed the CEPS Charges for nearly 15 years, and retail supply stakeholders (responsible for paying these charges) have never had the opportunity to participate in any such review. As the order approving these CEPS Charges notes, no party objected to the CEPS Charges at the time they were assessed. Order No. 23,443, p. 259. Considering that retail competition in New Hampshire has just now developed, and the CEPS Charges have only now begun to affect retail supply stakeholders, the Commission should now review these charges and provide an opportunity for retail suppliers to weigh-in on their reasonableness.

**Q. HOW SIGNIFICANT ARE THE CEPS CHARGES?**

**A.** The charges are already significant for NAPG and we expect them to increase substantially. In the first three months of our operation in New Hampshire, we have acquired approximately 25,000 customers in PSNH service territory. This amounts to at least $125,000 of "Selection Charges." The amount of "Selection Charges" PSNH assesses against NAPG will increase as some customers switch away from and back to NAPG. For our current customer base, we will also incur liability to PSNH for approximately $12,500 in monthly billing charges (approximately $150,000 per year). In addition, NAPG expects to incur between $30,000 and $50,000 of collections services charges in the first year for these customers, depending upon billed amounts theses customers owe NAPG. In total, we expect to incur at least $250,000 of PSNH charges on our current customers alone.

**Q. WHAT ARE NAPG'S PRINCIPAL CONCERNS REGARDING THESE CEPS CHARGES?**

**A.** As explained in more detail in my testimony, these charges are: (1) not based on a sound policy rationale; (2) do not apply established utility ratemaking and cost of service principles; and (3) undermine New Hampshire law requiring retail electric competition. Most importantly, the charges are anti-competitive, because only CEPS incur the charges. PSNH's default service business does not. This result harms New Hampshire's retail market, and ultimately consumers, just as consumers begin to benefit from the state's restructuring policies.

**Q. CAN YOU EXPAND ON THESE CONCERNS?**

**A.** Yes. There are three primary arguments against the current CEPS Charges.

First, the CEPS Charges are not based on established utility ratemaking principles required under state law and regulation. See generally RSA 378 et seq. (Rates and Charges). No explicit Commission policies set forth principles or mechanisms on this matter regarding these specific charges. The current charges instead result from settlement. Statutes and regulations are silent on specific charges applied by utilities to a CEPS. In addition, the charges have no proven basis in recent or projected costs that PSNH incurs for these activities.

A foundational principle for regulated utility rate making is that of "just and reasonable" rates for allowable costs. See, e.g., RSA 378:7 (requiring the

Commission to determine "just and reasonable or lawful rates, fares and charges . . .of the service to be performed....").

For allowed operational costs incurred by regulated utilities that are eligible for rate recovery, there are a range of established methods and principles for determining how these costs are translated into rates and charges applied to different classes of customers. No such principles are applied to the CEPS Charges. The bases used to determine the charges were set forth in 1999 by PSNH. See Direct Testimony of Gary A. Long and Steven R. Hall, Docket No. DE 99-099 (August 2, 1999) (hereinafter "1999 Testimony"). The cost estimates for the CES Charges are not only flawed, for reasons discussed below, but they are based on 1998 information and are, clearly, no longer accurate. The Supplier Charge was not based on PSNH cost estimates but, instead, borrowed from fee schedules of other utilities. See 1999 Testimony at pp. 26-27 and Attachment GAL/SRH-8, at p. 1.

More importantly, PSNH's distribution and fixed customer charges already fully include the allowable costs related to billing and collections. See Order No. 25,123 in Docket No. DE 09-035 (June 28, 2010). Consequently, the CEPS Charges create an over recovery of billing and collections costs. PSNH has operated for over 10 years without significant residential competition. Residential billing and collections costs have been recovered exclusively via distribution charges during that time. With the development of competition in the residential market, PSNH's distribution business is now recovering costs via CEPS Charges and the distribution rates, but PSNH has not reduced distribution rates in proportion to the amounts they receive from CEPS. Given this, the only possible outcome is over recovery by PSNH for billing and collections costs. Accordingly, the CEPS Charges in the PSNH delivery service tariff do not reflect established ratemaking principles as required by New Hampshire state law.

Second, the CEPS Charges run counter to state law that requires regulatory provisions that support retail electric competition. Specifically, the principles found in RSA 374 F:3 (hereinafter the "Restructuring Policy Principles") include that: (1) "[g]eneration services should be subject to market competition and minimal economic regulation and at least functionally separated from transmission and distribution services which should remain regulated for the foreseeable future;" (2) "[n]on-discriminatory open access to the electric system for wholesale and retail transactions should be promoted;" and (3) "[t]he 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."

The application of CEPS Charges applies only to CEPS and not to PSNH's default service business. A fundamental principle for evaluating the reasonableness of the CEPS Charges is the fact that PSNH default service is separate from its distribution and customer operations business. Statute requires PSNH to operate, and the

Commission to regulate, the default service business as functionally separate from the distribution business. In addition, PSNH is able to receive a rate of return on its default service business that is fully separated from its return on its distribution business. The distribution business includes cost recovery and a return on capital from customer operations, including billing and collections.

Consequently, the CEPS Charges violate the Restructuring Policy Principles. That is, generation services are not fully subject to market competition nor are they fully functionally separated with these charges in place. In addition, the application of CEPS Charges violates the non-discriminatory open access principle for retail transactions. Finally, the CEPS Charges violate the requirement that costs of administering default service should be borne by customers of default service. If the costs assessed against suppliers in the CEPS Charges are legitimate, PSNH's default service business should incur these costs and, presumably, reduce PSNH's profit (or increase its rates) to the same degree it does a CEPS. It is clearly a misuse of default service.

Third and most importantly, the CEPS Charges are anti-competitive. In the current environment, PSNH and CEPS compete directly for generation supply customers. In accordance with the Restructuring Policy Principles, default service should not be provided in a discriminatory manner. The operational and capital costs of billing and collections are recovered in distribution rates. The cost recovery for default service does not include any of these costs. It is not clear from the public record what PSNH revenue requirements are needed to recover the costs of switching customers to and from generation supply for both CEPS and PSNH default service. Whatever the costs and resulting revenue requirements are, under the current policy CEPS are forced to pay for billing, collections and switching costs while PSNH's generation service business does not. By requiring CEPS to pay these charges and allowing PSNH to avoid these charges in its default service business, the CEPS Charges create a structural cost advantage for PSNH relative to CEPS. This harms competition and, ultimately, electricity consumers in PSNH's service area.

According to a December 12, 2012 filing, PSNH default service rates include $41,367,000 of "Return of rate base" for 2013. (2012 Updated Exhibit, Attachment RAB-1 in Docket No. DE 12-292). This $41 million return is effectively profit for PSNH to supply default service. The costs of billing, collections and switching do not result in any decrease in the allowed return. In contrast, CEPS must account for the costs of the charges by reducing its return and/or increasing its rates. This policy is clearly anti-competitive.

**Q. WHAT IS THE APPROPRIATE POLICY FOR RECOVERING COSTS OF ADMINISTERING CUSTOMER CHOICE IN PSNH TERRITORY?**

**A.** Billing, collections and other systems that facilitate customer choice are a core function of PSNH's statutory obligation to operate a competitive retail market. The appropriate policy for recovering billing, collections and switching costs is to include them in distribution rates for both CEPS and PSNH default service customers. The costs are already included in distribution rates for PSNH default service. They should also be included in distribution rates for CEPS.

There are two primary policy rationales for including cost recovery of customer choice in distribution rates. First, administering customer choice via the PSNH distribution tariff is akin to numerous other state policy programs designed to benefit New Hampshire residents and businesses. New Hampshire distribution utilities currently administer several programs required by law and regulation. This includes energy efficiency programs, renewable energy programs and low income programs. Given the unambiguous statutory requirement to operate a competitive retail market, PSNH cost recovery for administering customer choice should be included in distribution rates.

Second, cost recovery for administering customer choice should be applied in a non-discriminatory fashion. To apply the charges only to CEPS and to permit the PSNH default service business to avoid the costs and obtain a guaranteed return on its supply business is unfair and anti-competitive. A policy that requires cost recovery in distribution rates ensures a level playing field.

**Q. GIVEN THIS POLICY RATIONALE, IS IT ACCURATE TO STATE THAT PSNH IS SUBSIDIZING A CEPS BY HAVING ITS DISTRIBUTION OPERATIONS FACILITATE AND PAY FOR BILLING, COLLECTIONS AND CUSTOMER SWITCHING?**

**A.** No. Under the current policy, the opposite is true. The PSNH default service business is subsidized. Operational and capital costs associated with billing and collections for default service customers are recovered from distribution rates. The costs of these services are not offset against the return provided to the PSNH default service business. They are provided to the default service business for free. In contrast, CEPS must pay fees, not based upon any demonstrated costs, that offset PSNH distribution-related costs and contribute to the overall profitability of PSNH. CEPS are subsidizing the PSNH default service business.

**Q. DO YOU HAVE ANY COMMENTS ON THE SPECIFIC CEPS CHARGES?**

**A.** Yes. In terms of the selection charge, the basic policy of charging such a fee is flawed and the specific amounts charged are unjust and unreasonable.

NAPG typically pays its electronic data interface ("EDI") vendors fees that are much lower than $5 per enrollment and $5 per drop. Although the fee structure we pay is not defined on a per-selection event basis, the effective cost for selection events is less than 5 cents per enrollment or drop. NAPG's processes are automated, so the cost beyond the vendor charges is de minimus. Given these very low costs associated with switching customers, PSNH costs cannot be $5 per enrollment and $5 per drop, unless their processes are extremely inefficient and/or their vendor charges are well above market costs. More importantly than the actual charge amount is the fact that CEPS pay these charges, but PSNH's default service business does not.

It is important to note that the two other investor owned utilities in New Hampshire - Unitil and Liberty Utilities - do not have a Customer Selection Charge. This undercuts the original rationale for the Supplier Charge in the 1999 Testimony – that PSNH mirrored the charges employed at the time by other New Hampshire utilities. See 1999 Testimony, Attachment GAL/SRH-8, p. 1 (discussing basis for Supplier Charge). In addition, PSNH sister companies CL&P in Connecticut and WMECO in Massachusetts do not have a Customer Selection Charge or similar fee.

The Billing and Payment Service Charge is based on PSNH estimates of costs incurred in 1998. It appears from the 1999 Testimony, PSNH is basing the $0.50 charge on a total cost allocation, not the incremental costs. The estimated total cost is $3,788,250 based on 5,000,000 bills annually. 1999 Testimony, Attachment GAL/SRH-8, at p. 5. This particular CEPS Charge thus reflects the fully loaded cost minus postage. That is, for customers on CEPS service, a CEPS pays the full amount of the 1998 PSNH estimated billing costs minus postage. There is no allocation of costs for distribution charges in these calculations. This is an unfair allocation of costs, especially given the fact that the PSNH default service business receives this service for free. Should the Commission determine that a billing fee is appropriate to charge a CEPS, the charge should be based on the incremental cost of billing for CEPS supply charges or PSNH default service charges. These incremental costs should be either non-existent or so low that the costs of identifying and tracking such a figure may well exceed the costs themselves.

To charge a CEPS $0.50 per bill does not reflect the incremental cost or a fair allocation of the total cost of this activity. In terms of incremental cost, I am not aware of any costs whatsoever that PSNH should incur. Once the PSNH system is programmed (which is under a separate set of fees charged to CEPS), the PSNH system renders a bill with the CEPS name on the bill. There are no incremental rendering, labor, print, postage or systems costs that I am aware of.

Whatever PSNH costs are, distribution customers already pay through distribution rates for costs associated with generating customer bills and processing payments. Since PSNH already recoups these costs from customers, they are likely over-recovering by charging CEPS. In addition, the PSNH default service business does not pay for these charges.

Similar to the Customer Selection Charge, Unitil and Liberty Utilities do not have a Billing and Payment Service Charge. In addition, PSNH sister companies CL&P and WMECO do not have this charge.

Finally, the Collections Services Charge has no cost justification. In fact, given the payment hierarchy policy in place which applies payments to PSNH receivables in front of CEPS receivables under all circumstances, CEPS are providing PSNH with a service. That is, if a customer that provides a late payment or has provided a partial payment to PSNH, PSNH applies those amounts to their late and current balance before the CEPS receives any payment on the amount in arrears. In effect, CEPS are enabling PSNH to improve arrears levels in relation to its default service business. For those customers that are current with PSNH distribution charges but not with the

CEPS supply charges, certain collections activities, such as sending a disconnection technician to the home, can be avoided.

Like the billing cost estimates, the PSNH collection cost estimates are contained in the 1999 Testimony, and ultimately adopted via the settlement. See 1999 Testimony, Attachment GAL/SRH, p. 3. These estimates allocate 100 percent of the costs to CEPS and zero percent to the distribution-related receivables. In addition, this charge includes a 14.5 percent return to PSNH paid for by CEPS.

In addition, collections services provided to CEPS are no different than those provided to its default service business. Yet, no charges are applied to the PSNH default service business. And, like billing, the cost of collections services are recovered from distribution charges. This is unfair and anti-competitive. As a final point, like the Billing and Payment Service Charge, in the unlikely event there are incremental supplier-specific costs, they would be so small that identifying and tracking the costs for ratemaking purposes could well exceed the costs themselves.

Unitil and Liberty Utilities do not have a Collections Service Charge. In addition, PSNH sister company WMECO does not have this charge. CL&P provides Purchase of Receivables to retail suppliers in Connecticut. A fee is charged to CEPS that account for administrative costs and bad debt costs, but this is not a collections charge per se.

**Q. WHAT ARE YOUR RECOMMENDATIONS FOR ADDRESSING THESE FEES?**

**A.** NAPG recommends that the Commission remove these charges from PSNH's tariff as soon as possible. The Commission has this authority under the "exogenous events" provision in the Order approving PSNH delivery service tariff. See Order No. 25,213 in Docket No. DE 09-035 (June 28, 2010). In addition, PSNH should be required to refund all CEPS Charges applied to date, either to affected CEPS or, alternatively, to a fund dedicated to proving independent information regarding retail electric competition. If the Commission elects in the alternative to undertake a full examination of the cost basis of some or all of the CEPS Charges, pursuant to RSA 378, § 27 it should immediately reduce current CEPS charges to more reasonable levels to minimize harms to suppliers and consumers during the pendency of such investigation.

**Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

**A.** Yes.