DE 00-105

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Fuel and Purchased Power Adjustment Clause

Order Approving Continuation of FPPAC Rate and Summer 2000 Interruptible Program

O R D E R N O. 23,505

June 6, 2000

APPEARANCES: Gerald M. Eaton, Esquire, for Public Service Company of New Hampshire; Michael W. Holmes, Esquire for the Office of Consumer Advocate on behalf of residential ratepayers; and Donald M. Kreis, Esquire, for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On May 3, 2000, Public Service Company of New Hampshire (PSNH) petitioned the New Hampshire Public Utilities Commission (Commission) to open a proceeding to consider the rate PSNH could charge customers for its Fuel and Purchased Power Adjustment Clause (FPPAC) for the period June 1, 2000 through November 30, 2000. PSNH proposed an FPPAC rate of $0.00383 per kWh, the current FPPAC rate. In support of its petition, PSNH filed a technical statement and exhibits that reflected actual FPPAC costs through March 31, 2000 and estimates of costs from April 1, 2000 through November 30, 2000.

On May 24, 2000, the Commission issued an Order of Notice scheduling a hearing for May 30, 2000. Also on May 30, 2000, the Commission received a letter from the Office of Consumer Advocate (OCA) stating that it will be participating fully in the proceeding on behalf of residential ratepayers. On May 25, 2000, PSNH filed the direct testimony of James R. Shuckerow, Jr., Director of Wholesale Power Contracts for Northeast Utilities Service Company (NUSCO), an affiliate of PSNH, and Stephen R. Hall, PSNH's Rate and Regulatory Services Manager. At the hearing, Mr. Hall adopted the technical statement of Robert A. Baumann, NUSCO's Manager of Revenue Requirements for New Hampshire and Massachusetts.

II. POSITIONS OF THE PARTIES AND STAFF

A. PSNH

The current FPPAC rate of 0.00383 per kWh has been in effect since June 1, 1998. PSNH states that the current FPPAC rate does not recover any of the previous under-collection of FPPAC costs. PSNH estimates that the current FPPAC under-collection will be $100 million at the end of May 2000 and that it will grow to $143 million by the end of November 2000. PSNH points out that most of the under-collection has been subject to prior Commission review and approval for recovery.

As it has done previously, PSNH again proposes to defer its under-collection of FPPAC costs without interest in order to maintain current rates while a comprehensive electric restructuring agreement is determined. If and when the Settlement Agreement filed by PSNH and the Settling Parties becomes effective, FPPAC would end on Competition Day and any under-recovered FPPAC costs would be recoverable as a Part 3 stranded cost through the Stranded Cost Recovery Charge (SCRC).[1]

PSNH's testimony also addressed the expected energy and reliability situation for the upcoming summer period in New England. PSNH stated that it expects there will be adequate capacity to supply New England's needs this summer unless there are some remarkable unexpected outages in generating units during periods of extended hot weather. PSNH expects to have ample generation to meet its own load requirements. During periods when PSNH will have surplus generation, PSNH will bid the excess energy into the ISO-New England spot energy market and use any profits as an offset to FPPAC costs. Despite PSNH's expectation that it will be able to meet its own generation needs and that there will be adequate availability of resources for New England this summer, PSNH proposes to swap blocks of its power from its largest generating units for blocks of power from other

[1] *See* Order No. 23,343, issued April 19, 2000 in docket DE 99-099, for a description of the Settlement Agreement and recovery of stranded costs.

comparable units. The swaps are intended to reduce PSNH's risks of purchasing expensive replacement power due to forced outages at major PSNH generating units during periods of expensive New England power. PSNH cites the expensive spot energy price in New England on May 8, 2000 when the price reached $6,000 per megawatt-hour as an example of what power may cost at times this summer. If both Seabrook and Newington were unavailable during an hour when the ISO-New England spot energy price was $6,000 per megawatt-hour, PSNH's cost to replace that power would be $2.4 million per hour. For that reason, PSNH proposes to swap portions of its largest generating units, Seabrook, Newington and Merrimack II, for equal capacity of similar units, if possible, for the summer period. PSNH requests that the Commission hold PSNH harmless for the replacement power costs of the exchanged generating plants if they do not run well as PSNH can not influence or control how management of a non-PSNH run plant operates. PSNH only makes that request of non-PSNH units, not those owned and operated by a PSNH affiliate if a swap were done with an affiliate's power plant. PSNH expects that it will have to justify before the Commission any swaps that it makes as prudent.

PSNH also is offering an interruptible load program for the summer months which would pay large industrial and commercial customers for load curtailed during high load periods in New

England and ISO-New England calls for load interruptions under Operating Procedures 4 (OP 4) or when the spot market price of energy reaches certain thresholds. By reducing the load during periods of high load, PSNH can either sell more excess energy into the spot market at high prices or reduce its purchases from the market during periods of high spot market energy prices. Customers must have interval meters so the actual level of interruption can be measured accurately. The program is a response to Commission Order No. 23,443, which required PSNH to continue to offer an interruptible rate program. The program, which PSNH will use as a replacement to its existing interruptible program, Rate N-5, is intended to conform to the region-wide program being offered by ISO-New England for the summer. The savings will be split between the customer interrupting load and PSNH’s other customers. The actual level of payment will depend on the customer’s actual response to a request to interrupt load.

PSNH is proposing one additional initiative for the possibility of a tight and volatile energy market this summer, a program to encourage unused capacity at certain independent power producers to be generated during high load and/or high price periods in New England. PSNH is proposing to pay certain independent power producers, those nine from docket no. DR 89-148 who were found to have levels of capacity above which PSNH is obligated to purchase, to sell all their output above the level in their rate orders to PSNH during certain periods in OP 4 or when the market clearing price is at certain levels. Those levels would be higher than the short-term avoided energy costs now paid to qualifying small power producers. PSNH points out that the independent qualifying facilities do not generally produce power at the short-term avoided cost rates. A specific price was not proposed by PSNH, however.

B. OCA

The OCA did not file testimony, but questioned PSNH on its Rate VIP proposal as well as its intention to offer an incentive to certain independent power producers to increase output during high load periods or during specified, expected high market clearing prices for energy in New England. OCA urges the Commission to cap the prices paid to those participating independent power producers to no more than the rates they receive currently under their rate orders.

C. Staff

Staff did not present testimony. Its concerns focused on the Company's Rate VIP proposal, the expected summer prices and reliability of supply, and the details of PSNH's proposed capacity swap. In particular, Staff expressed concern about the units that would be exchanged for PSNH's units and whether and to what degree the Commission should look at the prudence of the swap.

III. COMMISSION ANALYSIS

PSNH proposes to keep the current FPPAC rate of $0.00383 per kWh in effect for the six-month period starting June 1, 2000. Based upon the record in this proceeding and the pending outcome of the Settlement Agreement in DE 99-099, the Commission finds that continuation of the current FPPAC rate is in the public interest; however, we emphasize that due to the timing of PSNH's filing and the constraints emanating from the resolution of the Settlement Agreement, the Commission has not conducted a full FPPAC review of the previous FPPAC period costs nor those forecasted for the upcoming period. Those costs are subject to a full review by the Commission in a future FPPAC proceeding if the Settlement Agreement does not become effective. Under the Settlement Agreement, the previous FPPAC unrecovered balance will become a stranded cost and is not subject to the Commission's prudence review, nonetheless, all FPPAC accruals that occur after August 2, 1999, are subject to the Commission's review and those costs will be reviewed under the appropriate prudence standard.

The record indicates that PSNH should have more than adequate capacity to meet its own load this summer, but the possibility, though small, remains that outages at two or more of its largest units could expose PSNH and its customers to significant costs. Therefore, PSNH's proposal to mitigate the risk of high replacement power costs due to the forced outage of its largest units during high cost periods in New England this summer is approved in part and denied in part. PSNH will be held accountable for its decisions to swap some portions of its own generation for equal capacity of similar units. The Commission cannot agree on this record that if that capacity comes from units which PSNH or an affiliate does not own or manage, PSNH should be entirely exempt from liability for forced outages from those units. In short, while the rationale PSNH has developed to minimize customers' exposure to potentially large replacement power costs is sound, its request for this Commission to absolve PSNH from the risk of a prudence review of a hypothetical outage, without knowledge of any facts, is not. The Commission, therefore, retains its authority to review both the details of the decision to enter into a swap and the details of actions leading to forced outages and increased FPPAC costs. PSNH may renew its request to be relieved of prudence responsibility for the consequences of an outage at a plant owned by another with whom it has engaged in a swap should such an outage occur, and we will consider the Company's arguments at that time. Meanwhile, we expect PSNH to determine if a swap is the prudent course for PSNH in its power supply planning for this summer, and to pursue a swap if it is.

We also note that the Settlement Agreement at lines 981-982 states:

> [t]he recovery of any FPPAC accruals that occur after August 2, 1999 shall be subject to the prudence standard of this Agreement.

This language does not remove the Commission's ability to review the prudence of FPPAC expenses if the Settlement Agreement becomes effective. No less review should be expected if the Settlement Agreement does not take effect.

Rate VIP has the potential to bring value to participating customers and PSNH's other customers. Historically, arrangements to reduce costs have split the benefits between the participants equally. Depending on the level of interruption by the customer, this proposal maintains that sharing mechanism. Although we would prefer a program that allowed more customers to participate, we will approve the Company's proposal to go forward quickly and offer the interruptible program to its large commercial and industrial customers who have interval metering. We will expect PSNH to explore the possibility of expanding interruptible rate offerings to a larger set of customers in the future.

Regarding PSNH's proposal to encourage those independent power producers to increase their generation during expected high load periods when OP 4 will be invoked or during expected high energy clearing prices, we agree with the Company that the additional capacity of the Independent Power Producers (IPPs) could help to alleviate tight capacity markets this summer as well as provide an opportunity to generate savings to PSNH's customers. We acknowledge OCA's concerns about the prices PSNH may pay to these Independent Power Producers, but regard OCA's proposal to cap the prices paid for the IPP power as unfounded and possibly deleterious to consumers' interests in lower rates. We do not expect PSNH to pay any more than necessary for IPP power, and to do so only where consumers will benefit, and the Company will be directed to file a report with the Commission when and if a pricing proposal between PSNH and the IPPs is made.

Based upon the foregoing, it is hereby

ORDERED, that the Fuel and Purchased Power Adjustment Clause rate of $0.00383 per kWh is effective with all bills rendered on and after June 1, 2000 through November 30, 2000, unless the Commission orders otherwise; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire's proposed short-term avoided cost rates are approved as filed; and it is

FURTHER ORDERED, that the Voluntary Interruptible Program, Rate VIP, as shown in Exhibit 17 is approved and that PSNH shall notify all eligible customers of Rate VIP in an expeditious manner and that PSNH file a list of participating customers and their response to calls for interruption by November 1, 2000; and it is

FURTHER ORDERED, that PSNH's proposal to encourage increased production from certain Independent Power Producers is approved and that any program to increase output with independent power producers be filed with the Commission; and it is

FURTHER ORDERED, that PSNH file compliance tariff pages in conformance with this order by June 15, 2000.

By order of the Public Utilities Commission of New Hampshire this sixth day of June, 2000.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary