DE 02-211

CONNECTICUT VALLEY ELECTRIC COMPANY

2003 Fuel Adjustment Charge and Purchased Power Cost Adjustment

Order Approving Fuel Adjustment Charge and Purchased Power Cost Adjustment

O R D E R N O. 24,101

December 20, 2002

APPEARANCES: Kenneth C. Picton, Esq. for Connecticut Valley Electric Company; Sarah B. Knowles, Esq. for the City of Claremont, New Hampshire; Michael W. Holmes, Esq. for the New Hampshire Office of Consumer Advocate; Edward N. Damon, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On November 27, 2002 Connecticut Valley Electric Company (CVEC or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a petition requesting approval of new Fuel Adjustment Charge (FAC) and Purchased Power Cost Adjustment (PPCA) rates effective for bills rendered on or after January 1, 2003.

The petition proposes changes in the existing FAC-PPCA rates to recover estimated 2003 power costs and over/undercollections of 2002 power costs. Another purpose of the petition is to make the annual adjustment to CVEC's Short Term Rate E under which it purchases power from qualified small power producers (SPPs) not under separate contract. Included in the Company's filing are the pre-filed testimony and attachments of Charles A. Watts and C.J. Frankiewicz and proposed new tariff pages, as well as a request for a waiver of the application of Puc 1203.05(a), requiring rate changes be implemented on a service-rendered basis. CVEC contemporaneously filed the annual adjustment to its Business Profits Tax Adjustment Percentage (BPTAP), which has been docketed as DE 02-212.

On December 6, 2002, the New Hampshire Office of Consumer Advocate (OCA) filed with the Commission notice of its participation in this docket on behalf of residential ratepayers consistent with RSA 363:28. On December 11, 2002, the City of Claremont, New Hampshire (Claremont) filed with the Commission a petition to intervene. A hearing on the merits was held on December 13, 2002.

The Commission issued a secretarial letter on December 17, 2002, announcing the Commission's decision to hold the record open only for receipt of the information contained in certain specified record requests and reserved exhibits. The record requests and reserved exhibits related to the Hydro-Quebec Ice Storm Arbitration were withdrawn and deemed stricken.

On December 20, 2002, CVEC filed answers to the Record Requests, including discovery, that were not withdrawn and deemed to be stricken by the Secretarial Letter dated December 17, 2002.

II. POSITIONS OF THE PARTIES AND STAFF

A. CVEC

CVEC proposes a FAC rate for 2003 of $0.0238 per kilowatt-hour (kWh), an increase of $0.0047 over the currently effective 2002 rate of $0.0191. This would result in a revenue increase of $719,706, or 3.8 percent on an annual basis. The 2003 PPCA rate proposed by CVEC of $0.0006 per kWh represents an increase of $0.0053 per kilowatt-hour over the currently effective 2002 rate of ($0.0047) per kWh. This would result in a revenue increase of $811,584, or 4.3 percent on an annual basis.

The overall net revenue effect of the proposed FAC/PPCA rates would be a revenue increase of $1,569,879, or 8.3 percent on an annual basis, including the derivative effects of the Conservation and Load Management Percentage Adjustment (C&LMPA) and BPTAP. For a residential customer using 500 kWh per month, the proposed FAC/PPCA rates will result in a monthly bill increase from $73.71 to $78.84, an increase of $5.13, or 7 percent.

According to CVEC, the FAC recovers costs related to the energy portion of purchases from its primary supplier, Central Vermont Public Service Corporation (CVPS), CVEC's corporate parent, under Rate Schedule FERC No. 135 (RS-2) and from certain SPPs, primarily the Wheelabrator facility in Claremont, New Hampshire, under contracts approved by the Commission or under Short Term Rate E. The PPCA, on the other hand, recovers "capacity" costs[1] of purchases from these sources. Consistent with its approach in previous proceedings of this kind, in determining the 2003 FAC and PPCA rates CVEC has forecasted the relevant 2003 energy and capacity costs, adjusted for interest and prior period over/underrecovery of costs,[2] and divided by forecast 2003 kWh sales.

Mr. Watts stated that total retail megawatt-hour (mWh) sales peaked in CVEC's service territory in the 1997-2000 time period at about 170,000 mWh, fell about 3.3 percent in 2001, and are expected to fall about 3.0 percent in 2002 and another 3.6 percent in 2003, primarily due to the loss of a few large customers. Mr. Frankiewicz noted that higher kWh sales cause an increase in average-cost FAC revenues that is larger than the corresponding increase in CVEC's marginal energy costs charged by CVPS; conversely, a decrease in kWh sales causes a decrease in average-cost based FAC revenues that is larger than the

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[1] Such costs include costs of purchased capacity, transmission by others (TbyO), and CVPS' own generation, transmission and distribution. A portion of CVPS' total capacity costs are allocated to CVEC.

[2] The over/underrecovery amount reflects actual figures for November and December 2001 and January through October, 2002, as well as estimated amounts for November and December, 2002.

corresponding decrease in CVEC's marginal energy costs charged by CVPS, resulting in a higher FAC than would otherwise be the case.

Mr. Watts also presented extensive information about CVEC's forecast and actual RS-2 energy charges, net purchased capacity costs, SPP costs, and TbyO costs. According to Mr. Watts in modeling 2003 costs there was no attempt to predict any changes that may occur due to the implementation of Standard Market Design (SMD); nevertheless, CVEC believes that SMD should have a minor effect on CVEC's net power costs. Mr. Watts also testified about one large change in pricing related to CVPS' power portfolio that began on July 31, 2002 with the sale of the Vermont Yankee (VY) nuclear plant to Entergy. This change greatly increases monthly RS-2 energy charges, but also greatly reduces net purchased capacity costs.

Finally, Mr. Watts presented the calculation of Short Term Rate E, which yields an overall 2003 rate of $0.0386 per kWh. According to Mr. Watts, CVEC pays Pettyboro Hydro this rate for its energy output.

Mr. Frankiewicz compared the proposed 2003 FAC costs with the 2002 costs reflected in the 2002 FAC rate approved in *Connecticut Valley Electric Company*, 86 NH PUC 941 (Order No. 23,885, December 31, 2001). First, he said the average RS-2 energy costs are expected to be $849,687 higher in 2003 than were forecast in 2002. Second, as noted above, kWh sales are expected to be 3.3 percent lower in 2003 than forecast for 2002, thus increasing the FAC. Third, kWh purchases from SPPs other than Wheelabrator[3] are forecast to be 718 mWh higher than in 2002; in addition, the average unit purchase price is forecast to be higher. These factors are partially offset by two others: first, the 2003 FAC is calculated to refund a $209,380 overcollection from 2002 while the 2002 FAC was designed to recover a $237,040 undercollection, resulting in a $446,420 lower recovery in 2003; second, purchases from Wheelabrator in 2003 are forecast to cost $55,452 less than in 2002. CVEC noted that the forecast does not reflect the Company's request to purchase net, rather than gross, output of the Wheelabrator facility nor the settlement payment provided by the unapproved stipulation of settlement filed in Docket DE 00-110.

Mr. Frankiewicz explained that CVEC's share of the net costs of the Hydro-Quebec Ice Storm Arbitration is reflected for the first time in the Company's proposed 2003 PPCA rate. According to Mr. Frankiewicz, the severe ice storm in January, 1998 caused catastrophic damage to the Hydro-Quebec system,

[3] Purchases of energy from SPPs are more expensive than those purchased from CVPS.

which kept power from being delivered to the Vermont Joint Owners, including CVPS, for some period of time. The Vermont Joint Owners sought to have the contract with Hydro-Quebec terminated on grounds that Hydro-Quebec had materially breached the contract by not constructing the system well enough to deliver power under the conditions experienced during the storm. The Vermont Joint Owners were unsuccessful in terminating the contract but they did obtain a settlement award for energy-related damages. CVPS’ share of the costs incurred in obtaining the settlement award amounted to $6,434,860 and its share of the award amounted to $4,255,959. Under the RS-2, CVEC’s allocated share of the net costs was approximately 6.1 percent.

CVEC asserted that the Commission does not have jurisdiction to conduct a prudence review of these costs since such a review is solely within the jurisdiction of the FERC. CVEC further asserted in response to a Staff data request that the legal issue was decided in the *Patch* case litigation.

Mr. Frankiewicz compared the proposed 2003 PPCA costs with the 2002 costs reflected in the 2002 PPCA rate approved in Order No. 23,885. First, he said the 2003 PPCA rate is calculated to collect a $861,984 undercollection[4] while the 2002 PPCA rate was designed to refund a $1,092,391 estimated overcollection from 2001. The result is a $1,954,375 higher undercollection to be recovered in 2003 than was included in the 2002 PPCA. Second, energy and demand sales are expected to be lower in 2003 than in 2002. An expected decrease in the 2003 RS-2 capacity costs partially offsets these two factors.

B. Claremont

Claremont did not present any witnesses of its own, but conducted cross examination regarding the amount of CVPS' Hydro-Quebec Ice Storm Arbitration costs and the allocation of a portion of those costs to CVEC. Claremont stated that it takes no position on the Company's filing.

C. OCA

OCA cross examined the Company witnesses on several subjects, including power production from the Wheelabrator facility and the status of CVEC's payment and collection of the associated costs, implementation of SMD, the effect of the Vermont Yankee facility sale on the filing, the effect of the

[4] More generally, CVEC states that the primary cause of the 8.3 percent net FAC-PPCA revenue increase is due to the replacement of a refund of a prior year net overcollection of $855,351 with the recovery of a net undercollection of $652,604 (which is the result of combining the PPCA undercollection of $861,984 with the FAC overcollection of $209,380) from 2002.

proposed acquisition of the CVEC franchise by Public Service Company of New Hampshire on the filing, the causes of the over/undercollection of the FAC-PPCA rates, and the Hydro-Quebec Ice Storm Arbitration.

In response to OCA's questions, CVEC confirmed that it was paying Wheelabrator under the rate order for 3.6 mWh of generation, with any excess over 3.6 mWh to be payable at Rate E, although it is collecting an amount from ratepayers for Wheelabrator production sufficient to cover payments at the rate order level for the full output of the plant. The Company stated that it is contractually and legally bound to pay the entire amount to Wheelabrator, a position it says is supported by the Wheelabrator settlement filed with the Commission in April, 2002. In addition, CVEC confirmed that its objective in proposing the 2003 FAC-PPCA rates is to end 2003 with a zero balance. Finally, in response to a question from OCA, the Company stated that its filing does not contain any changes due to the proposed sale to PSNH.

D. Staff

Staff also cross examined the Company witnesses on several subjects, including the Hydro-Quebec Ice Storm Arbitration, the possibility of new customers taking service from CVEC in 2003, the effect of the proposed acquisition of the

CVEC franchise by Public Service Company of New Hampshire on the filing and on how the FAC-PPCA balances would be handled, the status of late payment charges being paid to CVPS by CVEC, and the Company's method of calculating various figures in the filing.

In response to Staff's questions, CVEC stated that neither CVEC nor CVPS is expecting any large new customers taking service in 2003. Regarding the matter of late payment charges, CVEC confirmed that it paid no dividends to CVPS in the last year, it has not incurred late payment charges since the middle of 2002, and it does not expect to pay any late payment charges in 2003. The Company added that in connection with a request to renew its long term loan, it expects to file a request for a $1.25 million line of credit with CVPS in order to prevent late payment charges from accruing under the RS-2 and the service contract.[5] Finally, CVEC stated that under the proposed terms of the sale to PSNH, an over/undercollection in the FAC-PPCA rates, among others, would be reflected in the amount paid by PSNH. Thus, an undercollection would increase the amount paid and an overcollection would reduce the amount paid, subject to certain adjustments.

III. COMMISSION ANALYSIS

The filing in this docket is the latest in a series of similar filings. The filing follows the same methodology employed in previous dockets. We have carefully reviewed the record in this docket and we will approve the proposed FAC, PPCA and Short Term Rate E rates as set forth in the tariff pages included in the filing. Similarly, for rate continuity reasons, we will also approve CVEC's request for a waiver of Puc 1203.05(a), requiring rate changes to be implemented on a service-rendered basis.

In last year's FAC-PPCA order, Order No. 23,885, we indicated that the litigation costs associated with the Hydro-Quebec Ice Storm Arbitration would be subject to a prudence review at CVEC's next FAC-PPCA filing. CVEC argues in this docket, to our knowledge for the first time, that the Commission lacks jurisdiction to conduct such a review.

As is evident from the Commission's secretarial letter dated December 17, 2002, we have decided not to pursue further the question of prudence at this time. In making this decision, we have taken into account, among other things, Claremont's statement that it takes no position on the Company's filing and

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[5] According to CVEC, arrearages would be considered to be an advance under the line of credit.

Mr. Picton's opinion that if the Commission were to disallow the arbitration costs from being passed through to CVEC under the RS-2, the same legal battles of the last few years would likely be started again.

We calculate CVEC's share of the net arbitration costs to be approximately $133,000 based on the information provided to us by CVEC. While this is not an insubstantial amount given the relatively small size of CVEC's customer base, given the totality of the circumstances, we find that we are constrained to approve the proposed rate increases.

Based upon the foregoing, it is hereby

ORDERED, that the proposed 2003 FAC and PPCA rates are approved in accordance with this order, effective with bills rendered on or after January 1, 2003; and it is

FURTHER ORDERED, that Short Term Rate E is approved effective January 1, 2003.

By order of the Public Utilities Commission of New Hampshire this twentieth day of December, 2002.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary