DE 05-088

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Stranded Cost Recovery Charge and Transition and Default Energy Services Rate Reconciliation for 2004

Order Approving Stipulation and Settlement Agreement

O R D E R N O. 24,568

December 22, 2005

I. INTRODUCTION

On May 2, 2005, Public Service Company of New Hampshire (PSNH) filed with the New Hampshire Public Utilities Commission (Commission) a proposed reconciliation of the accounts associated with PSNH's Stranded Cost Recovery Charge (SCRC) and Transition and Default Energy Service charges for calendar year 2004, with accompanying pre-filed direct testimony. PSNH made the filing pursuant to Order No. 24,125 (February 14, 2003) in which the Commission approved a settlement of PSNH's initial (2001) SCRC reconciliation. That settlement, among other things, required PSNH to file annual SCRC reconciliations thereafter by May 1 of the following year.

As explained in Order No. 24,125 and subsequent orders pertaining to the 2002 and 2003 SCRC reconciliations, the SCRC is the mechanism by which PSNH recovers those restructuring-related stranded costs that were allowed under the Agreement to Settle PSNH Restructuring (Restructuring Agreement) approved by the Commission in 2000. See *PSNH Proposed Restructuring Settlement*, 85 NH PUC 154 (approving Restructuring Agreement); *on reh'g*, 85 NH PUC 536 and 85 NH PUC 645 (2000); *see also PSNH Proposed Restructuring Settlement*, 85 NH PUC 567 (2000) (resolving financing issues related to securitization of stranded costs); RSA 369-B (establishing legislative conditions for securitization financing).

Pursuant to RSA 374-F:2, IV, stranded costs are costs that electric utilities "would reasonably expect to recover if the [former] regulatory structure with retail rates for the bundled provision of electric service continued and that will not be recovered as a result of restructured industry regulation that allows retail choice of electricity suppliers, unless a specific mechanism for such cost recovery is provided."

Transition Energy Service is "electricity supply that is available to existing retail customers prior to each customer's first choice of a competitive electricity supplier and to others, as deemed appropriate by the commission." RSA 374-F:2, V. Default Energy Service is "electricity supply that is available to retail customers who are otherwise without an electricity supplier and are ineligible for transition service." RSA 374-F:2, I-a. PSNH provides its Transition and Default Energy Services from its portfolio of non-divested generation assets, mandated purchases from independent power producers and, as necessary, wholesale market purchases. PSNH is entitled to recover certain deficiencies and must credit certain surpluses from Transition and Default Energy Services to its recoverable stranded costs. The instant docket reconciles for 2004.

Any difference between Transition and Default Energy Service costs and revenues is included as an adjustment to PSNH's Part 3 stranded costs. Part 3 stranded costs are those stranded costs for which PSNH undertook some risk of non-recovery. The Restructuring Settlement established an initial Recovery End Date (RED) for Part 3 stranded costs, with such date to be adjusted within 30 days following the sale of PSNH's fossil and hydro generating assets pursuant to various risk sharing provisions described in the Restructuring Settlement. PSNH would be required to write off any unrecovered Part 3 stranded cost balances remaining as of the RED. Currently there is no date for the sale of PSNH's fossil and hydro generating assets and long-term ownership is the subject of on-going legislative efforts.

The Commission entered an Order of Notice on June 8, 2005, scheduling a Pre-Hearing Conference for June 21, 2005, and establishing a deadline for intervention petitions. No petitions were submitted; the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers as authorized by statute. The Pre-Hearing Conference took place as scheduled, and the parties and Staff of the Commission (Staff) developed a procedural schedule for the duration of the docket, which the Commission approved on June 24, 2005.

Thereafter, the Parties and Staff conducted discovery, technical sessions and settlement conferences as contemplated by the schedule. On September 23, 2005, Staff witnesses Steven E. Mullen and Michael D. Cannata, Jr.[1] submitted written pre-filed direct testimony. The Parties and Staff participated in two technical sessions, on August 30 and October 19, 2005, after which a Stipulation and Settlement Agreement (Agreement) was entered into among PSNH, the OCA and Staff. The Agreement was filed on October 20, 2005, and heard by the Commission on October 26, 2005.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In accordance with the Restructuring Agreement, PSNH's customers pay a Delivery Charge and an SCRC. In addition, customers who purchase energy supply from PSNH pay either a Transition Energy Service or a Default Energy Service charge.

[1] Mr. Cannata is a consultant with Liberty Consulting, Inc., retained by the Commission.

Included with the filing was prefiled testimony of William H. Smagula, Director of Generation for PSNH, Richard C. Labrecque, a Principal Engineer in the Regulated Wholesale Contracts department for Northeast Utilities Service Company, and Robert A. Baumann, Director of Revenue Regulation and Load Resources for Northeast Utilities Service Company. PSNH reported that during 2004 its balance of recoverable stranded costs (i.e., Parts 1, 2 and 3 stranded costs) decreased by approximately $128 million (from $770 million to $642 million). The $128 million decrease in stranded cost balance was the result of $149 million of Part 1, 2 and 3 amortizations, net the sum of the $21 million addition to stranded costs related to PSNH's acquisition of Connecticut Valley Electric Company on January 1, 2004. The Part 3 stranded cost balance decreased by $81 million, from $277 million to $196 million. PSNH further reported that its SCRC revenues for this period totaled approximately $260 million.

PSNH's cost of providing Transition and Default Energy Services in 2004 exceeded its revenue for these two services, by approximately $3.2 million. The average cost of providing these services was 5.58 cents per kilowatt-hour as opposed to an average rate billed of 5.54 cents per kilowatt-hour. PSNH, therefore, under-collected by $3.2 million for its energy services in 2004.

PSNH requested that unbilled revenues now be included in the reconciliation process, to match the expenses being recorded. As to the RED, PSNH expects to have fully recovered its Part 3 stranded costs some time in 2006. PSNH argues that under the terms of the Restructuring Agreement, the RED cannot be calculated until PSNH sells its non-nuclear generation portfolio.

Mr. Smagula provided information about all outages, either planned or forced, that occurred at PSNH generation facilities during 2004 and required PSNH to replace the power. In addition, Mr. Smagula testified that PSNH's total generation for 2004 was 6,197,889 megawatt hours, the second highest in the history of PSNH's operation. He reported that Merrimack Station's Unit 2 had the longest continuous run in its 36 years -- 147 days; Merrimack Station's Unit 1 had the 4th longest run in its 44 years -- 122 days. Newington Station had the lowest unplanned outage hours in its history and Schiller Station produced the highest generation in its 48 years. The hydropower facilities produced 12% more generation than the most recent five-year average, with a 98.8% availability factor.

B. Staff

Mr. Cannata testified to his review of the prudence of PSNH's generation outages during 2004, as well as the prudence of PSNH's market-based capacity and energy planning to supply Transition and Default Energy Services during the period. With respect to the outages, both planned and forced, Mr. Cannata testified that PSNH's generating units performed extremely well in 2004, better than forecast in many cases, and set new energy production records. Further, he found that PSNH conducted proper management oversight regarding planned and forced unit outages and, in all instances except one, the outages were reasonable and unexpected for the unit, or were necessary for proper operation of the unit. The one outage in question occurred at Newington Station on November 8, 2004, and was caused by an operator's inattention. The unit went down because a safety valve had been over-pressurized during a boiler hydrostatic test, something the operator did not notice because he was distracted by cleaning of the control room floor at the time. Mr. Cannata recommended that the replacement power costs for the November 8, 2004 outage not be recovered from PSNH's customers.

Mr. Cannata did offer four suggestions for unit efficiency improvement: 1) greater control of contractors and stronger efforts to involve key contractors who are familiar with the components and systems of PSNH's base load plants, even if those contractors are not the lowest bidders in all cases; 2) greater efforts to conduct maintenance and repair on line, when possible, to avoid the cost of replacement power; 3) continued strong operation of PSNH's hydroelectric units by making available more spare parts, again to avoid expensive replacement power; and, 4) an expanded list of spare parts for all plants, and identification of parts that are interchangeable among plants, again in light of the high cost of replacement power.

Mr. Mullen testified that PSNH's request to include unbilled revenues in the reconciliation process was appropriate, as it would allow for a proper matching of SCRC and Energy Service revenues and expenses. He also testified that, in his view, the coal supply and transportation problems experienced by PSNH should continue to be investigated, through an outside expert. Until a coal procurement expert has evaluated PSNH's process, he recommended the Commission reserve ruling on the prudence of those costs. Finally, Mr. Mullen described various "paths" for determining the RED. According to Mr. Mullen, all of those paths result in a RED that is later than the expected timetable for full recovery of PSNH's Part 3 stranded costs. Therefore, Staff recommended that the issue of the RED be tabled unless there is disruption to the current schedule for PSNH's recovery of its Part 3 stranded costs.

B. Summary of the Stipulation and Settlement Agreement

The Agreement, entered into by PSNH, OCA and Staff, accepted the recommendations of Mr. Cannata and Mr. Mullen. The Parties and Staff agreed that PSNH should not charge its customers for any additional replacement power costs related to the November 8, 2004 outage at Newington Station. However, in calculating the replacement power costs, it was determined that no additional cost for replacement power was incurred as PSNH was able to procure replacement power from the ISO-New England real-time spot market at a price during the outage hours that was less than the total cost of Newington's variable fuel expense for the same period and repair of the valve. Therefore, the Parties and Staff agreed that PSNH shall not be subject to any additional cost disallowances and that it be allowed to recover its full costs of generation, as well as its net costs of its purchased power supply including sales, as filed.

Also under the Agreement, PSNH would report its progress on the four areas identified by Mr. Cannata by June 30, 2006, to be reviewed and considered in the next SCRC reconciliation proceeding. Also deferred would be a decision on the prudence of coal supply and transportation costs, pending the findings of the coal procurement expert, as well as establishment of the RED. PSNH, OCA and Staff agreed that in all other respects the SCRC reconciliation requested by PSNH is consistent with the public interest and should be approved by the Commission.

III. COMMISSION ANALYSIS

We have reviewed the testimony of the PSNH and Staff witnesses, the Agreement, and testimony presented at the October 26, 2005 hearing. We find that, although the performance of PSNH's generating units has been very strong during 2004, Mr. Cannata's recommendations are sound actions to take to maintain the high availability factor and increase the efficiency of those units. Because they are relatively inexpensive plants to operate in a time of high cost replacement power, maintaining their operations is extremely important to Transition and Default Energy Service customers.

We accept the recommendation of the Parties and Staff to allow unbilled revenues in the reconciliation process, and further endorse the recommendation that Staff engage a coal procurement expert to analyze PSNH's coal procurement and transportation operations. Consistent with the Agreement, we will defer action on the coal-related costs until that analysis has been completed. We also find the Parties' and Staff's recommendation that determination of the RED be tabled for the foreseeable future to be reasonable for the reasons outlined in Mr. Mullen's testimony. We, therefore, approve the Agreement as filed, finding the resulting SCRC reconciliation for 2004 to be consistent with the public interest. We await the report of PSNH regarding its plant maintenance and parts protocol and the results of Staff's continued investigation of the coal supply and transportation problems experienced by PSNH.

Based upon the foregoing, it is hereby

ORDERED, that the Stipulation and Settlement Agreement entered into among Public Service Company of New Hampshire, the Office of Consumer Advocate and the Commission Staff is APPROVED.

By order of the Public Utilities Commission of New Hampshire this twenty-second day of December, 2005.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Michael D. Harrington Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary