DE 06-068

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Stranded Cost Recovery Charge Reconciliation

Order Approving Stipulation and Settlement Agreement

O R D E R N O. 24,711

December 15, 2006

APPEARANCES: Gerald M. Eaton, Esq. for Public Service Company of New Hampshire; Office of Consumer Advocate by Kenneth E. Traum on behalf of residential ratepayers; and Donald M. Kreis, Esq. of the Staff of the New Hampshire Public Utilities Commission.

I. BACKGROUND AND PROCEDURAL HISTORY

This proceeding before the New Hampshire Public Utilities Commission (Commission) commenced with the May 1, 2006 filing by Public Service Company of New Hampshire (PSNH) of its annual Stranded Cost Recovery Charge (SCRC) reconciliation for calendar year 2005, with prefiled direct testimony and attachments. The SCRC is the mechanism by which PSNH recovers certain restructuring-related stranded costs as 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, 85 *NH* PUC 536 and 85 NH PUC 645 (2000).[1]

In Public Service Co. of New Hampshire, 88 NH PUC 65 (2003) (Order No. 24,125), the Commission approved a settlement that implemented PSNH's initial SCRC reconciliation, which covered the period from May 1, 2001 (the date on which the PSNH service territory was opened to retail competition among energy suppliers under the Restructuring Agreement) through

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[1] 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."

December 31,2001. Order No. 24,125 directed PSNH to submit, on or before May 1 of each year, its proposed reconciliation of the previous calendar year's SCRC and Transition Energy and Default Energy Service revenues and costs.

Subsequent to Commission approval of the Restructuring Agreement, PSNH continued to recover costs related to the generation and delivery of electricity, but under a rate structure that segments this recovery into various components. Thus, PSNH's customers now pay a Distribution Charge, a Transmission Charge and an SCRC. Additionally, customers purchasing their energy supply from PSNH have paid either a Transition Service or Default Service charge. As of May 1, 2006, Transition Service is no longer available to any customers and all energy service supplied by PSNH is Default Service, referred to by PSNH and other electric utilities simply as Energy Service.[2]

Previously, the difference between revenues and costs associated with providing Transition Energy Service and Default Energy Service had been calculated and included as an adjustment to PSNH's "Part 3 Stranded Costs." Pursuant to the Restructuring Agreement, Part 3 Stranded Costs were those stranded costs for which PSNH undertook some risk of non-recovery. As of June 30, 2006, PSNH had recovered all of its Part 3 Stranded Costs and, accordingly, in Order No. 24,641 (June 30, 2006) the Commission approved a reduction to the Company's SCRC to reflect that development. In Order No. 24,579 (January 20, 2006) the Commission determined that, once Part 3 Stranded Costs had been fully recovered, the difference between revenues collected and prudently incurred costs associated with Transition Service and Default

[2] The Electric Utility Restructuring Act defines Transition Service as "electricity supply that is available to existing retail customers prior to each customer's first choice of a competitive energy supplier and to others, as deemed appropriate by the commission." RSA 374-F:2, V. The timetable that resulted in the termination of Transition Service as a customer option is set forth in RSA 374-F:3, V(b) (referring to "at least one but not more than 5 years after competition has been certified to exist in at least 70 percent of the state," an event that took place on May 1, 2001). Default Service is "electricity supply that is available to retail customers who are otherwise without an electricity supplier." RSA 374-F:2, I-a. The Commission authorized electric utilities to refer to their Default Service simply as "Energy Service" in Order No. 24,614 (April 13, 2006).

Service would thenceforth be carried forward for reconciliation purposes into the Default Service (i.e., Energy Service) rate. The costs at issue are those of owning, operating and maintaining PSNH's generating assets, certain costs related to mandatory purchases from independent power producers, and the cost of purchases and receipts for sales of energy made in the wholesale market. Thus, SCRC reconciliations involve, *inter alia*, an examination of PSNH's costs and revenues related to the provision of Energy Service.

The Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28 on May 12, 2006. On May 18, 2006, PSNH filed a set of 2005 outage reports in connection with fossil-fueled generation facilities, completing the testimony of PSNH witness William Smagula.

The Commission conducted a duly noticed prehearing conference June 27,2006, at which the Governor's Office of Energy and Planning (OEP) requested limited intervenor status. On June 29, 2006, Commission Staff filed its report of the technical session which followed the prehearing conference, including a proposed procedural schedule as agreed to by the parties and Staff. The Commission approved the procedural schedule and the OEP request for intervention in Order No. 24,653 (July 28, 2006).

Discovery ensued pursuant to the procedural schedule. Staff’s witness, consulting engineer Michael D. Cannata, Jr., submitted his prefiled direct testimony on September 22, 2006, reflecting the results of an investigation he conducted during the discovery period. PSNH filed a Stipulation and Settlement Agreement, into which it entered with OCA and Staff, on October 25, 2006. The Commission conducted a hearing on October 26, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. Summary of the Stipulation and Settlement Agreement

In its filing, PSNH represented that its retail energy revenues in 2005 exceeded its cost of providing the service by approximately $1.6 million. According to PSNH, it provided retail energy at an average cost of 6.79 cents per kilowatt-hour for the calendar year 2005. PSNH further noted that the average rate billed for calendar year 2005 was 6.81 cents per kilowatt-hour. PSNH also reported in its filing that during 2005 its balance of recoverable stranded costs decreased by approximately $181 million (from $642 million to $461 million). The Part 3 Stranded Cost balance decreased by $131 million in 2005 (from $196 million to $65 million) and SCRC revenues for 2005 totaled approximately $269 million.

The settlement agreement adopts this reconciliation with only two small exceptions. Specifically, the signatories agreed that PSNH would not, through the SCRC, recover replacement power costs associated with two brief unplanned outages at PSNH generation facilities, one at Amoskeag Hydro Unit No. 2 and the other at Schiller Station Unit No. 5. There were no replacement power costs associated with the former outage; the outage at Schiller Station resulted in replacement power costs of $1,543. PSNH explicitly did not concede that either outage was the result of imprudence, the traditional basis for disallowing the recovery of replacement power costs.

The remainder of the settlement agreement concerns operational matters investigated by Mr. Cannata. The settlement notes that Mr. Cannata reviewed: (1) the market-based capacity and energy planning conducted by PSNH during 2005 that augmented its own generation to supply retail energy to PSNH's customers, and (2) the operation of PSNH's generating plants and entitlements. Citing the results of Mr. Cannata’s investigation, PSNH, OCA and Staff agreed:

(1) that PSNH's filing accurately represents the capacity and energy purchasing process that took place in 2005, (2) that PSNH made sound management decisions with regard to its capacity and energy purchases in a market environment, (3) that the capacity factor projections used in 2005 were reasonable, and (4) that previous deficiencies in the capacity factor projections identified by Mr. Cannata had been corrected but that future projections might be improved as the result of certain recommendations made by Mr. Cannata.

With respect to capacity and energy planning, Mr. Cannata recommended that PSNH model monthly forced outages for its base load units rather than utilizing an annual rate based upon historical data. PSNH agreed to implement this recommendation and incorporate it into the submission of the Company's preliminary 2008 Energy Service rate filing.

Additionally, Mr. Cannata recommended that PSNH specifically model the short, planned reliability outages of its base load units. PSNH agreed to evaluate the possibility that a monthly schedule of short-duration reliability outages could be created with sufficient lead time and with sufficient confidence to influence power supply planning for the ensuing year. The utility further agreed that, to the extent that certain, routine maintenance evolutions could be expected to occur in a specific month with a high degree of certainty, those evolutions would be discretely modeled in power supply planning. PSNH agreed to complete this review prior to the submission of the Company's preliminary 2008 Energy Service rate filing. PSNH further agreed to meet with Staff sufficiently in advance of submitting its preliminary 2008 Energy Service rate filing to discuss the results of its review to allow recommendations from such meeting to be implemented in connection with the rate filing.

Mr. Cannata's investigation also addressed the issue of load forecasting. He recommended that PSNH develop alternative energy and capacity purchase plans based on 90/10 load forecasts using 10-year, 20-year, and 30-year historic weather data in addition to its 30-year average weather 50/50 load forecast. He also proposed that PSNH be required to analyze the differences between the purchase plans on a month-by-month basis and report to Commission Staff whether a 90/10 load forecast and/or a shorter than 30-year duration weather average forecast should be used.[3] PSNH agreed to analyze the impact of a 90/10 load forecast on the Company's planning for supplemental energy purchases and to provide the results of the analysis to Staff and OCA.

Mr. Cannata recommended that PSNH meet with the parties and Staff to develop a plan for dealing with large customer migration between PSNH-acquired retail energy and energy purchased from the competitive market. The signatories to the settlement agreed to defer the question for resolution in Docket No. DE 06-125, in which the Commission is establishing PSNH's energy service rate for effect on January 1, 2007.[4]

Mr. Cannata further recommended that PSNH require its operators and other personnel at the generation stations to complete a report whenever an operating error occurs. According to Mr. Cannata, each such report should include: (1) a description of the incident and what incorrect actions had been taken, (2) an explanation of why established procedures were not followed or how established procedures may have been deficient, and (3) suggestions as to how a similar event could be avoided in the future. Mr. Cannata recommended that these reports be distributed to other PSNH plants for review and potential application. He also

[3] As noted at hearing, "50/50" and "90/10" forecasting relates to the likelihood of weather-related increases in demand. According to PSNH witness Richard Labreque, the 50-50 forecast "is short for the weather normal. It looks at the past 30 years and establishes a baseline normal expected weather. I guess you could say 50 percent likely to be exceeded and 50 percent likely not to be exceeded. . . . In a '90/10' review, you would select the level of heating and cooling degree days that you would expect to be exceeded only one year in ten." Tr. At 26.

[4] The Commission conducted a hearing in Docket No. DE 06-125 and a decision is pending.

proposed that a similar formal program be instituted when a generating station makes improvements in reducing outage time. PSNH agreed to these recommendations.

In the report of his investigation, Mr. Cannata noted that generation outages have taken place due to the facilities and equipment operated by the distribution and transmission groups at PSNH. He concluded that PSNH's generation group lacked adequate opportunities to question the quality of service it had been receiving from the other PSNH operating groups. PSNH noted that its generation group participates in the Company's system operations review committee (SORC) process, which involves the review of outages on the distribution and transmission systems to determine if the facilities operated as designed. In the settlement, PSNH agreed to develop a process to ensure that proper demand for remedial action by the distribution and transmission groups will be made when actions from their systems cause loss of generation for any generator on the PSNH system. The signatories acknowledged that such communication would take place within the constraints of the applicable code of conduct, designed to preclude PSNH from using its transmission and distribution business to favor its generation business at the expense of competitive energy suppliers. PSNH agreed to document the delivery of such communications as part of its outage reports.

Mr. Cannata recommended that PSNH consult with an outside planning expert to assist in outage planning with the goal of further reducing the duration of planned unit overhaul outages. Also included in Mr. Cannata's report was a recommendation that PSNH engage in "root cause" analysis to evaluate all unplanned outages at major generating stations. PSNH agreed to implement these recommendations.

As noted in the settlement, the calculation of capacity and availability factors for purposes of planning future energy purchases during 2005 included the duration of planned outages at the PSNH generation facilities. Given changes in the maintenance schedules applicable to the PSNH generation facilities, Mr. Cannata recommended that future performance metrics (predictions of unit capacity and availability factors) be created without taking into account planned outages. PSNH agrees to perform both calculations, compare the results, and report metrics in both formats beginning with its 2006 calendar year SCRC reconciliation filing in May 2007.

As noted in the settlement, Mr. Cannata had made four recommendations in the most recent previous SCRC reconciliation proceeding (Docket No. DE 05-088) that were intended to improve unit efficiency. In June 2006, PSNH filed a report on its efforts and accomplishments regarding those recommendations. The instant proceeding provided an opportunity for Mr. Cannata to assess the progress made to date. The settlement notes that Mr. Cannata determined that PSNH had properly addressed: (1) concerns with respect to contractor control, and (2) on-line maintenance with respect to practical and training standpoints but that PSNH was not exploring new opportunities through interaction with personnel from non-PSNH generating stations. In the settlement, PSNH noted that it interacts with the operators from such outside facilities in Penacook, as well as Yarmouth, Maine (the latter being a facility in which PSNH owns a minority interest). PSNH agreed to consult further with operators of other non-PSNH generating stations such as independent power producers, consultants, etc. to explore new opportunities for on-line maintenance, reporting back to the Staff with its 2006 calendar year SCRC reconciliation filing in May 2007.

Mr. Cannata reported that, regarding hydro unit upgrades, PSNH satisfied the concern expressed in the previous docket in that it appropriately considered material upgrades rather than in-kind replacement when repairing its hydro units.

With respect to PSNH's master list of spare parts, the settlement noted Mr. Cannata's conclusion that the economic analysis PSNH used to determine what parts should be retained in inventory was not consistent across the generation group. PSNH agreed to establish consistent economic analyses in weighing the likelihood of failure of key components with the economic impact of failure of these components on continued operation of the plant in question. PSNH also agreed to include in these analyses budget considerations and the revenue requirements effect involved with these decisions.

B. Public Service Company of New Hampshire

In his prefiled direct testimony, PSNH witness Robert Baumann described *inter alia* the effect of the Company's energy service revenue on the (now fully recovered) Part 3 stranded cost balance. According to Mr. Baumann, retail energy costs exceeded revenues by $11.2 million during the first half of 2005 as the result of higher-than-expected fuel costs. Responding to the Commission's determination that it would entertain requests to adjust the Energy Service rate at mid-year to minimize the deferral of costs, PSNH filed such a request in July of 2005 and the Energy Service rate changed from 6.49 cents per kilowatt-hour to 7.24 cents, effective through January 2006. Mr. Baumann testified that this resulted in PSNH over-recovering its costs during the second half of 2005 by $12.8 million. He noted that the overall effect of the deferral from the first half of 2005 and the over-recovery from the second half was to decrease Part 3 stranded costs by $1.6 million.

William Smagula of PSNH submitted prefiled direct testimony concerning the operation of the Company's generation facilities in 2005. According to Mr. Smagula, the generation fleet produced more than 5.6 million megawatt-hours in 2003, which he described as the third highest level in the past six years. He testified that the fleet had an availability of 94.3 percent during the

30 days when wholesale electricity prices were highest in 2005. According to Mr. Smagula, PSNH's coal-fired baseload units, located at Merrimack Station in Bow and Schiller Station in Portsmouth, had a capacity factor during 2005 of 80.7 percent.[5] He described that figure as being five percent higher than the previous five-year average for these facilities. Mr. Smagula noted that Schiller Station had, as of the end of 2005, logged three straight years of record production.

C. Office of Consumer Advocate and Staff

Both OCA and Staff indicated their support at hearing for the Stipulation and Settlement Agreement. On behalf of Staff, consultant Michael D. Cannata submitted prefiled direct testimony concluding that PSNH made sound management decisions with respect to its purchases of energy and capacity on wholesale markets. He testified that PSNH's projections used to plan the 2005 purchases were reasonable, but he noted that short, planned reliability outages should be explicitly modeled. He also testified that recent customer migration from PSNH's Energy Service to competitive suppliers could introduce volatility into PSNH's prices for Energy Service in the future. Mr. Cannata's recommendations with respect to energy and capacity planning are reflected in the settlement agreement.

According to Mr. Cannata, PSNH's baseload generation facilities ran "extremely well" in 2005. Exh. 4 at 8. He determined that all plant outages during the period were reasonable with the exception of the two mentioned in the settlement. Mr. Cannata made certain recommendations with respect to operations and planning that are likewise addressed in the settlement.

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[5] Construction was ongoing in 2005 with respect to PSNH's Northern Wood Power Project, involving the replacement of one of the existing coal-fired boilers at Schiller Station with a new one capable of burning either wood or coal. Thus 2005 energy production at Schiller Station was entirely from coal.

III. COMMISSION ANALYSIS

As the result of PSNH having entered into its Restructuring Agreement, which resulted *inter alia* in the Commission issuing a financing order that securitized certain of PSNH's recoverable stranded costs, PSNH is obliged to use its generation fleet for the provision of its Energy Service and may recover its "actual, prudent and reasonable costs" in connection with such use of these facilities. *See* RSA 369-B:3, IV(b)(1)(A) (noting that this obligation remains effective until PSNH divests its generation fleet); *see also* RSA 369-B:3-a ("subsequent to April 30, 2006, PSNH may divest its generation assets if the commission finds that it is in the economic interest of retail customers of PSNH to do so, and provides for the cost recovery of such divestiture"). To the extent that PSNH must procure retail energy from other sources, we review these costs for their prudence as well. *See Public Service Co. of New Hampshire*, Order No. 24,695 (Nov. 8, 2006), slip op. at 31-32.

The energy-related expenses we review here meet the statutory requirements for recovery from customers. Staff conducted a thorough investigation and had only *de minimis* concerns about the outages that took place in 2005. Likewise, Staff found PSNH's power procurement efforts during the period to be prudent. The settlement agreement reflects PSNH's continued willingness to implement recommendations from the Commission's consultant relative to making additional improvements. Given these recommendations, we approve the proposed reconciliation of PSNH's stranded cost charge in light of expenses related to the provision Energy Service.

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 Commission Staff is APPROVED.

By order of the Public Utilities Commission of New Hampshire this fifteenth day of December, 2006.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary