

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 06-134

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Stranded Cost Recovery Charge

Order Approving Petition

ORDER NO. 24,769

June 29, 2007

Appearances: Gerald M. Eaton, Esq. on behalf of Public Service Company of New Hampshire; Office of Consumer Advocate by Meredith A. Hatfield, Esq. on behalf of residential ratepayers; and Suzanne Amidon, Esq. on behalf of the Commission Staff.

I. PROCEDURAL HISTORY

On May 18, 2007, Public Service Company of New Hampshire (PSNH) filed a petition with supporting testimony and schedules requesting a mid-term adjustment to its stranded cost recovery charge (SCRC) effective July 1 through December 31, 2007. Although the SCRC varies by customer class, the current average SCRC rate is \$0.0130 per kilowatt-hour (kWh) and was approved by Order No. 24,712 (December 15, 2006). In its petition, PSNH requested approval of an increase in the SCRC from the current average of \$0.0130 per kWh to \$0.0144 per kWh for effect with bills rendered on and after July 1, 2007.

The SCRC recovery mechanism was established pursuant to the agreement on PSNH restructuring approved by the Commission in *Public Service Co. of New Hampshire*, 85 NH PUC 536 (2000). Pursuant to the restructuring agreement, PSNH's stranded costs were categorized into three parts. Part 1 costs were defined as stranded costs that were securitized through the issuance of rate reduction bonds. Part 2 costs include ongoing costs consisting of the over-market value of energy purchases from independent power producers (IPP) and the up-front

payments made for IPP buy-downs and buy-outs previously approved by the Commission, and PSNH's share of the present value of the savings associated with these buy-downs and buy-out transactions. Part 3 costs, fully recovered as of June 30, 2006, comprised costs that had been deferred as regulatory assets on the books of PSNH. Once Part 3 stranded costs were paid off, the restructuring agreement contemplated that the SCRC would be set on a forecast basis every six months and would be reconciled to include any over-or under-recovery of Part 1 and Part 2 stranded costs from the previous period.

PSNH filed supplemental testimony on May 25, 2007, which was subsequently replaced by testimony filed on May 31, 2007 to correct for the omission of an attachment. The Commission issued an order of notice on May 31, 2007, scheduling a hearing for June 21, 2007. On June 4, 2007, Freudenberg-NOK General Partnership (Freudenberg), a manufacturing company, filed a motion to intervene. The Commission granted Freudenberg's intervention request at hearing.¹

II. POSITIONS OF THE PARTIES

A. Public Service Company of New Hampshire

PSNH explained that the underlying reason for the increase in the SCRC rate is the change in the market price of electricity. A significant portion of Part 2 stranded costs varies inversely with the market price of energy. Consequently, PSNH explained that because market prices for energy decreased compared to the prices that were forecast at the time the calendar year 2007 SCRC rate was established, the above-market price assumptions for power purchases from IPPs increased, thus creating an SCRC under-recovery of approximately \$6.0 million. At

¹ Earlier part of this proceeding, the Office of Consumer Advocate (OCA) entered an appearance on behalf of

hearing, PSNH testified that it had revised the per-kWh overall average SCRC rate from \$0.0144 to \$0.0143 based on a small change in sales assumptions, and had recalculated the SCRC rates to take this change into account. According to PSNH, the total IPP costs for the period will not change so any increase in the above-market portion of IPP costs that increases the SCRC rate will be offset by a corresponding decrease in PSNH's energy service rates, where the at-market costs of the IPPs are recovered.²

In proposing the stranded cost recovery charges for each customer class, PSNH applied the SCRC costs on a proportionally equal basis to achieve the new retail average rate. PSNH said this rate design is consistent with the rate design included in the terms of the settlement agreement approved by the Commission in PSNH's delivery service rate case. *See* Order No. 24,750 (May 25, 2007). In support of the rate design proposed here, PSNH testified that it looked at the difference between the illustrative stranded cost average rate level contained in the delivery service rate case settlement agreement rate design, compared it to the \$0.0143 per kWh calculated as the appropriate new average SCRC rates, and proportionally adjusted all of the specific SCRC rates. PSNH's May 31, 2007 supplemental testimony provided further information regarding the proposed changes from the SCRC rates currently in effect as well as a further explanation of how the proposed rates were calculated.

According to PSNH, its proposal for stranded cost rate design, consistent with the terms of the settlement agreement, will maintain the current interclass revenue responsibility while shifting some stranded cost recovery from the Rate GV demand charge to the Rate GV energy

residential ratepayers.

² See Order No. 24,768 in Docket No. DE 06-125.

charge. PSNH stated that there is no significant bill impact of this shifting because offsetting rate design changes were also proposed for distribution rates in its delivery rate case.

Upon inquiry from Staff, PSNH testified that Part 1 of stranded costs would be reduced by about \$10.3 million in February 2008 with the pay-off of the five-year rate reduction bond related to the Whitefield rate order. In addition, the company added that the Tamworth rate order would expire at the end of March 2008, which could reduce stranded costs by an additional amount between \$10 million to \$14 million.³ According to the Company, these decreases would be reflected in the forecast for the new SCRC rate effective January 1, 2008. PSNH concluded by stating that the SCRC costs are justified and the rates should be approved as requested.

B. Freudenberg-NOK General Partnership

Although Freudenberg intervened in this docket, it did not participate in the proceedings.

C. Office of Consumer Advocate

At hearing, the OCA questioned PSNH regarding the bill impacts of this filing for residential customers. PSNH said that average residential consumption for a recent 12-month period is about 630 kWh per month, resulting in a current monthly bill of \$92.74. PSNH stated that when taking into account the increase approved in the delivery service rate case, *see* Order

³ Tamworth and Whitefield are IPPs that use wood fuel. When each went on line in the 1980s, PSNH was required by the federal Public Utility Regulatory Policies Act (PURPA) of 1978 to purchase their power at rates that were intended to match the utility's avoided cost of producing the power itself. Implementing PURPA, the Commission approved longterm rate orders based on avoided cost projections that proved to be much greater than actual avoided costs, as reflected in recent years by the spot price of electricity in the region's wholesale electricity market. It is the difference between these spot market prices and the longterm IPP rates that is recovered by PSNH as a Part 2 stranded cost. To mitigate those stranded costs, the Commission approved a negotiated buy-out of the Whitefield rate order and allowed PSNH to securitize (i.e., issue rate reduction bonds for which cost recovery is legislatively guaranteed) the associated costs. The original Tamworth rate order remains in effect.

No. 24,750 (May 25, 2007), the pending energy service rate adjustment,⁴ and the implementation of a transmission cost adjustment mechanism,⁵ the average residential customer bill would increase by \$0.70 per month, which is an increase of about three-quarters of one percent. The OCA concluded by stating that it did not object to PSNH's request for an adjustment to the SCRC.

D. Commission Staff

The Staff stated that it had reviewed the petition and had no objection to PSNH's petition as revised in the amended filings.

III. COMMISSION ANALYSIS

RSA 378:7 authorizes us to determine the just, reasonable and lawful rates to be charged by public utilities within our jurisdiction. With respect to stranded cost recovery, the Legislature has specifically instructed that any recovery "should be through a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, consistent with the promotion of fully competitive markets and consistent with [the restructuring policy] principles" enumerated in the Electric Utility Restructuring Act. RSA 374-F:3, XII(d). We find that PSNH's proposal to adjust the SCRC to reflect current market conditions meets the "just, reasonable and lawful" standard and is consistent with the Legislature's guidance with respect to stranded cost recovery.

Upon review of the record, we conclude that PSNH's proposed adjustment of the SCRC to an average rate of \$0.0143 cents per kWh is supported by the evidence. Accordingly, we approve

⁴ See Order No. 24,768 in Docket No. DE 06-125.

⁵ See Order No. 24,770 in Docket No DE 07-068.

PSNH's petition.

Based upon the foregoing, it is hereby

ORDERED, that the petition, as amended, by Public Service Company of New Hampshire to institute an adjustment to the SCRC rates for bills rendered on and after July 1, 2007 is hereby GRANTED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall make tariff filings conforming with this Order within 30 days hereof pursuant to N.H Code Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of June, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary