

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 07-097

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Adjustment of Stranded Cost Recovery Charge

Order on Petition

ORDER NO. 24,807

December 17, 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 G. Amidon, Esq., on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On September 7, 2007, Public Service Company of New Hampshire (PSNH) filed testimony and related exhibits supporting a change to its stranded cost recovery charge (SCRC) effective January 1, 2008. The SCRC is paid by all PSNH customers and is designed to compensate PSNH for certain costs that would otherwise have been unrecoverable in light of the industry changes brought about by the Electric Industry Restructuring Act, RSA 374-F. Although the SCRC varies by customer class, the current average SCRC rate is 1.43 cents per kilowatt-hour (kWh), with that rate set to expire on December 31, 2007. By its filing, PSNH requested approval of a decrease in the overall average SCRC rate for effect on January 1, 2008. At the time the petition was filed, PSNH estimated an average SCRC rate of 0.88 cents per kWh, but did not request approval of a specific rate in its petition; instead PSNH indicated it would update its estimates with more recent data prior to the hearing on the merits.

The Office of Consumer Advocate (OCA) entered an appearance on September 14, 2007 on behalf of residential ratepayers pursuant to RSA 363:28. An order of notice was issued on the

same day, scheduling a prehearing conference for October 9, 2007. The Campaign for Ratepayers Rights (CRR) filed a petition for intervention on September 26, 2007.

The prehearing conference was held as scheduled, during which the Commission granted CRR's petition for intervention. Following the prehearing conference, the parties and Staff agreed upon a procedural schedule, which the Commission approved by secretarial letter dated October 22, 2007. In accordance with the procedural schedule, the parties and Staff engaged in discovery and held a technical session on November 1, 2007. On November 11, 2007, Staff filed the testimony of Steven E. Mullen.

On November 21, 2007, PSNH filed an updated SCRC calculation of 0.72 cents per kWh, incorporating updated market data as well as the results of discussions with Staff and OCA. The hearing took place on November 28, 2007, as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In prefiled testimony, Robert A. Baumann, director of revenue regulation and load resources for Northeast Utilities Service Company, an affiliate of PSNH, explained that the SCRC recovers certain costs under the Restructuring Settlement approved by the Commission in Order No. 23,549, *PSNH Proposed Restructuring Settlement*, 85 NH PUC 536 (2000). According to Mr. Baumann, the Restructuring Agreement defined PSNH's stranded costs and categorized them into three different parts as follows: Part 1 is composed of the rate reduction bond (RRB) charge calculated to recover the costs of repayment of the securitization of the RRBs. Part 2 costs include "ongoing" costs consisting primarily of the over-market value of energy purchased from independent power producers (IPPs), 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-down and buy-out transactions. Part 3 costs, consisting of non-securitized stranded costs, were fully recovered as of June 30, 2006.

Mr. Baumann noted that PSNH, at the time it filed its petition, anticipated that the preliminary average 2008 SCRC rate would be approximately 0.55 cents per kWh lower than the current average rate of 1.43 cents, or 0.88 cents per kWh. He attributed the expected 2008 rate decrease primarily to the reduction of over \$21 million in over-market IPP costs resulting from the expiration of several IPP rate orders during 2007 and 2008. In addition, Mr. Baumann testified that PSNH's \$50 million RRBs related to financing the buyout of the Whitefield IPP's rate order would be paid off by the end of January 2008. Mr. Baumann estimated that the decrease in the SCRC revenue requirement from 2007 to 2008 related to the pay off of those bonds will be over \$10 million. Mr. Baumann indicated that, if a mid-year rate adjustment to the SCRC is deemed necessary, PSNH would file a petition to change the SCRC rate consistent with a petition to modify the energy service rate in May 2008.

In its updated November 21, 2007 filing, PSNH proposed an average SCRC rate of 0.72 cents per kWh for effect on January 1, 2008, as opposed to the rate of 0.88 cents per kWh estimated in the original filing. At hearing, Mr. Baumann testified that PSNH had agreed to incorporate into its updated filing recommendations made by Staff regarding the treatment of certain items referred to by PSNH as the "net obligations" in PSNH's contemporaneous petition to adjust its energy service (ES) rate in Docket No. DE 07-096. Specifically, PSNH agreed to include approximately \$11.7 million of net credits associated with amounts paid in 1997 to buy out the McLane Dam hydroelectric project in Milford, New Hampshire; credits associated with certain Clean Air Act equipment installed on PSNH's generating units in the 1990s; and credits related to accumulated SO₂ auction allowance proceeds. In addition, PSNH agreed to apply

\$540,000 of prior SO₂ auction allowance proceeds to the conservation and load management budget of the Home Energy Assistance Program. PSNH had previously proposed to include all of the above items in its ES rate calculations in DE 07-096. Mr. Baumann testified that moving the “net obligations” to the SCRC rate calculation accounted for most of the reduction in the updated 2008 SCRC rate as compared to PSNH’s original filing. He also noted that a portion of the reduction reflected the fact that overall market prices had increased, resulting in a reduction in the above-market costs of IPPs included in the SCRC calculations. He stated that the increase in the market price of IPP costs is part of PSNH’s updated filing in Docket No. DE 07-096, the adjustment to the ES charge for 2008. Finally, PSNH asked for approval of the average SCRC rate of 0.72 cents per kWh effective with bills rendered on and after January 1, 2008.

B. Office of Consumer Advocate

The OCA supported the updated figures as reflected in PSNH’s November 21, 2007 filing. It also supported the application of \$540,000 of SO₂ auction allowance proceeds to the Home Energy Assistance Program.

C. Staff

Mr. Mullen, in his prefiled testimony, recommended that PSNH remove the “net obligations” from its proposed calculation of 2008 ES rates in Docket No. DE 07-096 and instead apply the net obligations to the 2008 SCRC rate calculation. Mr. Mullen identified the “net obligations” as follows: (1) \$37,500 of McLane Dam buyout costs, (2) a \$10,085,529 credit related to certain Clean Air Act equipment installed on PSNH’s generating units in the 1990s, and (3) a \$2,129,897 credit for accumulated SO₂ allowance auction proceeds. Mr. Mullen disagreed with PSNH’s proposal to include those items in the ES rate calculations. According to the Staff witness, the three items are unrelated to projected 2008 ES costs; rather, PSNH

proposed to apply these items against its 2008 ES costs as a one-time means of removing the items from its books. In addition, Staff noted that all three items originated and/or accumulated in prior years. Further, to the extent that a PSNH customer will be receiving energy service from a competitive supplier in 2008, that customer would not receive the benefit of the net credit resulting from applying the “net obligations” to the 2008 ES rate. Staff took the position that applying the “net obligations” to the SCRC rate calculations would ensure that as wide a customer base as possible would receive the benefit of the rate credit.

Mr. Mullen stated that \$540,000 of the SO₂ allowance auction proceeds was in a conservation and load management funding account at the onset of electric competition on May 1, 2001. As a potential alternative treatment of that amount, Mr. Mullen suggested that, in keeping with the original intent of the funds, the Commission could consider including the \$540,000 in the current CORE energy efficiency program docket, DE 07-106. At hearing, Staff stated that it supported the application of \$540,000 of the SO₂ allowance credit to the Home Energy Assistance Program portion of the CORE programs. Finally, noting that PSNH had incorporated its recommendations in the updated SCRC calculations, Staff recommended that the Commission approve the petition as revised.

III. COMMISSION ANALYSIS

RSA 378:7 authorizes us to determine the just, reasonable and lawful rates to be charged by utilities within our jurisdiction. With respect to stranded cost recovery, the Legislature has specifically instructed that any recovery “should be through a non-bypassable, 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 is appropriate and consistent with the Legislature's guidance.

We approve PSNH's November 21, 2007 updated filing that incorporates Staff's recommendation to credit the so-called "net obligations" to PSNH's 2008 SCRC revenues rather than its 2008 ES revenues. We agree with Staff that it is more appropriate to include the "net obligations" in the SCRC to assure that the benefit of the credit is applied to customers as broadly as possible. Finally, we find it appropriate to apply the initial \$540,000 balance of the SO₂ allowance auction proceeds to the Home Energy Assistance Program as it is consistent with the original intent of the funds.

Upon review of the record and Staff's recommendation, we conclude that PSNH's proposed reduction of the SCRC to an average rate 0.72 cents per kWh is supported by the evidence and will result in a SCRC rate that is reasonable and lawful. Accordingly, we approve PSNH's petition.

Based upon the foregoing, it is hereby

ORDERED, the petition of Public Service Company of New Hampshire for Adjustment of Stranded Cost Recovery Charge as updated by its November 21, 2007 filing is hereby APPROVED; and it is

FURTHER ORDERED, that PSNH shall file tariffs conforming with this Order within 30 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this seventeenth day of
December, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary