

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 08-113

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Request for Approval of 2009 Energy Service Rate

Order Approving Energy Service Rate

ORDER NO. 24,924

December 30, 2008

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

I. PROCEDURAL HISTORY

On September 12, 2008, Public Service Company of New Hampshire (PSNH) filed testimony and related attachments and exhibits to support an energy service (ES) rate for service rendered on and after January 1, 2009. Pursuant to RSA 369-B:3, IV,(b)(1)(A), customers taking energy service from PSNH are billed an ES rate equal to PSNH's actual, prudent and reasonable costs of providing the power, as approved by the Commission. In its filing, PSNH provided an initial estimate of 10.51 cents per kilowatt hour (kWh) for the 2009 ES rate, but further stated that a final proposed rate would be filed just prior to the hearing to reflect the most recent estimates of fuel and energy costs.

On September 19, 2008, the Office of Consumer Advocate (OCA) notified the Commission of its participation in the docket on behalf of residential ratepayers consistent with RSA 363:28. The Commission issued an order of notice on September 22, 2008, scheduling a prehearing conference for October 6, 2008. On October 2, 2008, petitions for intervention were jointly filed by Freedom Logistics, LLC, and Halifax-American Energy Company, LLC (Joint

Intervenors). The intervention petitions were granted by the Commission at the prehearing conference.

Staff filed a proposed procedural schedule on October 7, 2008, which was approved by secretarial letter dated October 9, 2008. Pursuant to the procedural schedule, a technical session was held on November 6, 2008 followed by a discovery period. On October 23, 2008, PSNH filed motions for confidential treatment for its responses to Staff's data requests numbered 001, 002, 004, 008, 009, 011, and 017. The Commission issued Order No. 24,920 on December 12, 2008 ruling on the various motions.

PSNH filed updated calculations of its proposed 2009 ES rate on December 2, 2008, together with a technical statement explaining the differences between the September 12 filing and the updated filing. In the updated filing, PSNH proposed a 2009 ES rate of 9.92 cents per kWh, a decrease of 0.59 cents per kWh from the filing of September 12, 2008. On December 3, PSNH filed a document which depicted the cost per kWh of various components of the ES rate. The hearing took place as scheduled on December 4, 2008.

Subsequent to the hearing on December 8, 2008, the Joint Intervenors filed a letter in which they addressed certain issues raised by PSNH in its motion to dismiss in Docket No. DE 08-145¹ that they believed had some relevance to the instant proceeding.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In prefiled testimony, PSNH witness Robert A. Baumann noted that, as of February 2004, the ES rate for all retail customers has been based on the forecast of PSNH's "actual, prudent and reasonable costs" consistent with RSA 369-B:3, IV(b)(1)(A). The current ES rate of 9.57 cents

¹ DE 08-145 was opened in connection with the Joint Intervenors' petition asking the Commission to determine whether certain modifications to PSNH's Merrimack Station are in the public interest.

per kWh was established in Docket No. DE 07-096, *Public Service Company of New Hampshire*, Order No. 24,871 (June 27, 2008). Based on its preliminary calculations, PSNH estimated that the 2009 ES rate would be 10.51 cents per kWh. According to Mr. Baumann, the proposed rate of 10.51 cents per kWh was due to higher forecasted fuel and purchased power costs, increases in the cost of compliance with the New Hampshire Renewable Portfolio Standard (RPS) (RSA Ch. 362-F) and new costs associated with the Regional Greenhouse Gas Initiative (RGGI) (RSA 125-O:19–28).

In its updated filing of December 2, 2008, PSNH requested that the Commission approve an ES rate of 9.92 cents per kWh for effect January 1, 2009. According to the Company, this rate represents a 2.4% increase to overall rates. PSNH testified that the primary reasons for the increase from the current rate of 9.57 cents per kWh were the same as in its original filing (i.e., higher forecasted fuel and purchased power costs, increases in the cost of RPS compliance, and the new costs associated with RGGI compliance) plus the incremental operation and maintenance (O&M) and replacement power costs (RPC) associated with the Merrimack Unit 2 outage that is expected to occur in the summer and fall of 2009. PSNH said that those increased costs were partially offset by decreased costs associated with power purchases from independent power producers (IPPs) and a \$10 million coal inventory adjustment which will be flowed through as a reduction to energy costs in 2009.

PSNH explained that the Company's updated sales forecast, as compared with the forecast used in the September 12 filing, predicts a 3% drop in total retail sales for 2009. PSNH also revised its forecast of the amount of its customer load served by competitive suppliers. That forecast increased by approximately 427,000 megawatt-hours (MWh), from 156,000 MWh to just under 583,000 MWh. PSNH explained that the net impact of the revised sales forecast and

the revised customer migration forecast on default ES sales forecast is approximately an 8.3% decrease in ES sales for 2009 as compared to 2008.

PSNH explained the reasons for the decrease in overall costs and the resulting decrease in the ES rates as compared to its initial filing in a technical statement attached to the updated filing. The changes described in the technical statement were as follows:

- 1) \$12.7 million increase in Newington fuel oil expense due to an increased forecast of economic operation;
- 2) \$5.5 million net increase to projected O&M costs, partially offset by estimated insurance claim payments, related to a planned outage Merrimack Unit 2 in 2009 to repair turbine damage;
- 3) \$44.3 million decrease in supplemental power purchase expense, primarily related to the revised sales forecast;
- 4) \$38.8 million decrease in coal generation expense, primarily related to forecasted transportation fuel adjustment surcharges, lower forecasted SO₂ allowance expense and a revised Merrimack Unit 2 outage schedule;
- 5) \$14.1 million decrease in forecasted ISO-NE capacity costs, RPS compliance costs and RGGI compliance costs;
- 6) \$10.0 million decrease related to a physical coal inventory adjustment for Merrimack Station;
- 7) \$9.1 million decrease related to estimated insurance claim payments for the replacement power cost associated with the Merrimack Unit 2 turbine damage;
- 8) \$7.1 million decrease in fossil-hydro O&M expenses that were erroneously double-counted in the September 12 filing;
- 9) \$4.5 million decrease in IPP costs due to lower forward market prices;
- 10) \$4.3 million decrease related to the true-up to actual revenues and expenses for August-October 2008 (\$2.8 million) and a revised forecast of November and December 2008 (\$1.5 million); and
- 11) \$1.3 million of other minor cost changes.

According to PSNH, the increases resulting from items 1 and 2 above were more than offset by the decreases shown in items 3 through 11.

At the hearing, PSNH explained the reasons for the extended outage planned in 2009 for Merrimack Unit 2. According to PSNH, it typically schedules an annual outage of Merrimack Unit 2 in April and May to get the unit ready for summer loads. PSNH said that Merrimack Unit 2, as part of a cyclic process, was due for an extended outage of eight weeks, as compared to the normal four weeks, to perform turbine maintenance. Taking advantage of that schedule, PSNH chose to replace the high pressure/intermediate pressure turbine to increase its operational efficiency. PSNH testified that the new turbine would improve Merrimack Unit 2 operations in three areas. First, the new turbine would be more efficient, which would result in less fuel cost for the same amount of output. Second, the turbine would be capable of increasing output to support the planned scrubber installation at Merrimack without decreasing overall net energy output from the plant. Third, the turbine would have a much longer maintenance cycle which would extend the major maintenance cycle from 5 to 10 years.

According to PSNH, following installation of the new turbine, Merrimack Unit 2 was returned to service on May 22, 2008. PSNH said it was immediately apparent that something was wrong with the turbine operation. PSNH explained that, because the turbine was new, the source of the problem was hard to diagnose, even with the assistance of outside experts. PSNH testified that the unit was brought offline on June 20 for a more thorough investigation which revealed wear and tear erosion on what had been a brand new turbine. PSNH said that abrasive debris was found in the turbine and in the boiler area. PSNH stated that, although the turbine was repaired to the extent possible and restored to power on July 14, 2008, the turbine is operating below expected levels.

PSNH testified that it entered into discussions with the vendor and the insurance company and filed a claim with the insurance company. The Company said that its goal is to restore the turbine to “as new” condition. PSNH explained that, to achieve that level of restoration, the Company has two options: 1) replace the unit in the 2010-2011 time-frame with an outage comparable to the 2008 outage, or 2) repair the unit in 2009 with an extended outage of 17 to 18 weeks. PSNH said that the insurance policy would cover the repair or replacement of the turbine, as well as the replacement power costs incurred in connection with the outage.

For the 2009 ES filing, PSNH modeled the costs associated with the turbine to be consistent with repairing the turbine in 2009. PSNH said that during this planned outage it would also perform normal annual O&M activities. According to PSNH, the outage would begin in mid-August 2009 and continue for 17 or 18 weeks until December 2009.

PSNH testified that its ES calculations include assumptions regarding the amount and timing of potential insurance proceeds related to the turbine repair. However, the actual amounts and timing of any such payments are subject to the ongoing settlement negotiations with the insurance carrier and vendor. In any event, PSNH said that its costs of providing energy service, including its replacement power costs related to the planned outage, are subject to reconciliation.

In response to questions about the planned increased operation of the Newington plant during 2009, the Company said that there had been a dramatic decline in the cost of residual fuel oil that Newington burns. PSNH noted that it had been able to purchase some oil at prices that, when converted to electricity at Newington, are less expensive than the forecasted cost of making additional supplemental power purchases. PSNH further said that it had included in its cost estimates additional RGGI allowance requirements to support the increased operation of Newington Station.

PSNH explained that the \$10 million adjustment in coal inventory was a result of a physical inventory that took place at Merrimack Station in the summer of 2008. The Company said this adjustment will be recorded as a credit to fuel expense in November or December 2008.

PSNH concluded by requesting that the Commission approve its petition as revised by its December 2, 2008 filing.

B. Freedom Logistics, LLC and Halifax –American Energy Company, LLC

The Joint Intervenors did not participate in the hearing.

C. Office of Consumer Advocate

At the hearing, the OCA observed that PSNH's own use of power at its various facilities (also called "company use"), including non-generation facilities, is collected through the energy service charge. In response to questioning, PSNH stated that customers who migrate to competitive suppliers would avoid their proportionate share of company use related costs. The OCA asked PSNH whether it had any objection to discussing the issue of the recovery of PSNH's own power use through ES rates in conjunction with PSNH's next rate case. PSNH replied that it would have no objection.

The OCA said that it does not object to PSNH's 2009 ES rate request. The OCA also stated that it would like to be notified of major events with PSNH's generation units, such as the outage at Merrimack Unit 2, when Staff is notified. Finally, the OCA opined that ratepayers should not have to pay the repair costs or the replacement power costs associated with the extended turbine repair outage in 2009 rates because ratepayers had already paid for the insurance premium covering the costs associated with the outage. The OCA said that the Company should wait to see what it recovers from its insurance policy and then come to the Commission with a request to recover any costs not covered by insurance.

D. Commission Staff

Staff stated that it had reviewed PSNH's original and updated filing and believed that PSNH has provided sufficient information to support its proposed 2009 ES rate of 9.92 cents per kWh. Staff recommended that the Commission approve PSNH's request as amended by the December 2, 2008 filing.

With respect to the turbine repair and planned extended outage at Merrimack Unit 2, Staff said that PSNH could provide updated information to the Commission when the Company files its mid-year adjustment of the ES rate. Staff also said that the outage and associated costs would be reviewed in connection with PSNH's filing for reconciliation of its 2008 ES and stranded cost recovery charge costs.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV (b)(1)(a), PSNH is required to establish the price of its default energy service according to its actual, prudent and reasonable costs of providing such power, subject to our approval. We find that PSNH appropriately calculated the proposed 2009 ES rate to be 9.92 cents per kWh and that its calculation is supported by its December 2, 2008 updated filing. Therefore, we will approve the rate. As has been our practice, we will review the reasonableness of PSNH's operating expenses and the prudence of its capital expenditures in connection with the Company's separate filing reconciling ES costs and revenues.

At hearing, PSNH testified regarding problems related to the installation of a new turbine at Merrimack Unit 2 including a planned extended outage to repair the turbine during 2009. We will closely monitor further developments related to the turbine problems including incremental O&M costs, replacement power costs and insurance reimbursements. We agree with Staff that the outage will be a subject for review in PSNH's reconciliation of ES and stranded cost charges

for 2008, and therefore will allow the estimated net outage-related costs as calculated by PSNH to be included in the 2009 ES rate, subject to that later review. We expect PSNH to reflect in its mid-year ES rate filing any cost implications regarding the outcome of negotiations with the insurance carrier and any other related developments.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire's requested energy service rate of 9.92 cents per kWh effective with service rendered on and after January 1, 2009 is hereby approved; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff changes that conform with this Order within 30 days hereof.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of December, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director