

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 08-113

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Proposed Mid-Term Adjustment to 2009 Energy Service Rate

Order Approving Petition

ORDER NO. 24,991

July 24, 2009

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 Commission Staff.

I. PROCEDURAL BACKGROUND

On May 20, 2009, Public Service Company of New Hampshire (PSNH) filed a petition with supporting testimony and schedules requesting an interim change to its energy service rates for services rendered on and after August 1, 2009. PSNH's current energy service rate is \$0.0992 per kilowatt-hour (kWh). *See* Order No. 24,930 (December 30, 2008). Pursuant to N.H. RSA 369-B:3, IV(b)(1)(A), the price for PSNH's energy service must reflect PSNH's actual, prudent and reasonable costs of providing the power. In prior energy service proceedings, the Commission has approved a twelve-month rate and has allowed any party to request a mid-term adjustment to the rate to avoid large over- and under-recoveries. In its filing, PSNH estimated that the new rate would be \$0.0894 per kWh, but noted that, as in past mid-year filings, it would update the projected costs and rate calculations prior to hearing. PSNH said that it requested the August 1, 2009 effective date to coincide with the proposed effective date for temporary rates that it requested in Docket No. DE 09-035, PSNH's distribution rate proceeding.

The Office of Consumer Advocate had previously filed a letter on September 19, 2008 stating that it would be participating in the instant docket on behalf of residential ratepayers pursuant to RSA 363:28. The Commission issued an order of notice on June 11, 2009.

On June 19, 2009, PSNH submitted updated attachments to its prefiled testimony along with a technical statement summarizing the changes from the initial filing, including the actual final revenues and expenses for May 2009 and an updated forecast of kilowatt-hour sales and power costs through December 31, 2009. In its revised filing, PSNH requested an interim adjustment to the energy service rate from \$0.0992 per kWh to \$0.0903 per kWh, a decrease of \$0.0089 or 9%, effective with service rendered on and after August 1, 2009.

II. POSITIONS OF THE PARTIES

A. PSNH

PSNH's testimony at hearing addressed the June 19, 2009 revisions to its initial filing. PSNH said that the decrease in energy service rates from the current rate of \$0.0992 per kWh to \$0.0903 per kWh generally reflects the declining market price for energy. PSNH said that the proposed rate is an estimated rate that would be subject to a review for prudence in the separate annual reconciliation process for 2009 energy service rates that will be filed in 2010.

Regarding migration of its customers to competitive suppliers, PSNH testified that it expects migration for the remainder of 2009 to exceed that experienced in prior years. The Company estimated that 16 percent of its large customers (18 percent of its peak power load) now take energy from competitive suppliers. PSNH opined that the increased migration resulted from third party suppliers offering a better rate in light of declining market prices. PSNH also noted that it sets its default service rate effective January 1 of each year based on its forecast of power costs, whereas competitive suppliers can offer prices based on then-existing market prices.

PSNH stated that it used the approximate 18 percent at peak migration, which is the Company's most recent data, as its forecast of migration for the remainder of 2009. PSNH testified that the Company does not try to predict market movements, but attempts to reflect the best known information in its filing. PSNH noted that the energy service price is decreasing, which may result in fewer customers migrating to competitive supply, but overall market conditions are unpredictable. PSNH affirmed that it had agreed to meet with the OCA and Staff prior to filing its 2010 energy service rate to discuss the issue of the impact of migration on residential and small business customers who do not have the opportunity to take advantage of competitive supply opportunities.

PSNH provided an update concerning insurance proceeds related to damage to the new turbine that occurred after it was installed at Merrimack Station in 2008.¹ The Company testified that it has two insurance policies — one covering malfunctions or equipment problems with boiler and machinery equipment and another covering replacement power costs. With respect to the turbine damage, the claim for costs incurred to analyze the problem, inspect the equipment, order parts and conduct the repairs was made under the boiler and machinery equipment policy for operation and maintenance (O&M) costs. PSNH testified that under that policy, which has a \$1 million deductible, a claim was made for \$3 million, which was paid by the carrier in 2008. According to PSNH, it will make additional claims for future O&M expenses.

With respect to the policy covering replacement power costs, PSNH explained that such claims are subject to a 60-day waiting period, and that the policy contains a daily maximum allowance and an overall insurance policy limit of \$31 million. PSNH testified that it submitted claims for the costs of replacement power, including costs for replacement power associated with

¹ For a summary of the outage, see Order No. 24,924 (December 30, 2008) at 5-6.

the difference between the actual production of the turbine and the expected production of the turbine had it functioned correctly, following the 60-day waiting period through the month of October 2008, for which it received payment of \$3 million. In addition, PSNH said it had submitted claims for the months of November and December 2008 and for the first quarter of 2009, and will continue to make quarterly claims through the duration of the fall 2009 outage scheduled at Merrimack 2 for purposes of repairing the turbine. PSNH said that it had experienced lags in the insurance company payments. Therefore, in developing the rates, PSNH estimated that some of the claims for replacement power costs incurred in 2009 would likely be paid in 2010, and, therefore, had included in its 2009 energy service rate calculations only those payments it reasonably expected to receive from its insurance carrier, taking into account the waiting period and payment delays.

PSNH said the extended outage to repair the Merrimack 2 turbine would take place in connection with its annual planned four-week maintenance outage during the months of August through December 2009, resulting in a total outage duration of eighteen weeks. PSNH estimated that the replacement power costs associated with the outage, excluding those associated with the normal four-week outage, are estimated to be \$5.2 million. Regarding the timing of the planned outage, the OCA asked whether PSNH was concerned that it would be taking place at a potential summer peak time. PSNH responded that such an event was considered but the requisite length of the outage required the Company to schedule it at a time when replacement parts are available and when it made sense in terms of weather conditions. PSNH pointed out that the middle of the winter is not a good time for an outage because the equipment can freeze and the startup could take additional days or weeks. Based on projections of the replacement power costs that were predicted for the August time frame, and knowing that the Company wanted to avoid the

unknown risks of working in a cold period start-up, PSNH concluded that its chosen time frame was the best time to conduct the outage.

With respect to its costs of complying with the Regional Greenhouse Gas Initiative (RGGI), PSNH explained that RGGI is a cap and trade program through which allowances for CO₂ emissions are purchased either at auction or in a secondary market. PSNH said it can also use allowances allocated to it through the 2002 New Hampshire Clean Power Act (CPA) to comply with RGGI. Under the CPA, PSNH was granted certain CO₂ allowances earned through energy efficiency and renewable energy investments made prior to 2009. The projects that qualified for those allowances are the replacement of a runner at PSNH's Smith Hydro plant and the conversion of one of the boilers at Schiller Station from coal-fired to wood-fired, referred to as the Northern Wood Power Project. PSNH testified that for 2009, the first RGGI compliance year, it will use 2.5 million RGGI allowances earned pursuant to the CPA and has or will purchase the remaining required allowances. PSNH explained that the improvements at Smith Hydro were funded by customers and, therefore, 100 percent of the value of the allowances associated with the improvements is credited to customers. With respect to the Northern Wood Power Project, PSNH explained that, in accordance with an agreement² related to that project, 50 percent of the value of the allowances earned from that project is credited to customers. *See Public Service Company of New Hampshire*, Order No. 24,327 (May 14, 2004) 89 NH PUC 294.

In response to questioning, PSNH explained a \$12.7 million credit related to the coal inventory at Merrimack Station that was included in the filing. According to PSNH, it conducts

² The "agreement" referred to by PSNH was not a "settlement agreement" but a recommendation contained in a joint motion for reconsideration filed on March 3, 2004 in Docket No. DE 03-116, *Public Service Company of New Hampshire*. The substance of the recommendation described how to allocate the risks and rewards associated with the project's incremental costs and incremental revenues. The Commission accepted the recommendation in Order No. 24,327 (May 14, 2004) 89 NH PUC 294.

a physical inventory of its fuel once a year to reconcile with the booked inventory. While PSNH had previously estimated an inventory adjustment at the end of 2008, it found that the required adjustment was larger than originally estimated. PSNH testified that while there is always some amount of error that occurs during the year, it discovered that due to an error with a coal scale at the bottom of one of its conveyors, the amount of coal being burned in the plant had been overstated. PSNH said it is in the process of replacing the scale and will be conducting two physical inventories in 2009 in order to avoid large adjustments.

Regarding compliance with the Renewable Portfolio Standard (RPS) for 2009, PSNH said that it currently plans to comply through a combination of its own resources, purchases and alternative compliance payments, with the actual mix of those compliance methods varying among the various renewable energy classes.

B. Office of Consumer Advocate

At the conclusion of the hearing, the OCA stated that it took no position on PSNH's petition. The OCA said it was pleased that the resulting rates are decreases, and that market rates are lower. The OCA reiterated its concern about migration and the potential impact of increased migration on residential customers.

With respect to the replacement power costs necessitated by the extended outage at Merrimack Station, the OCA opined that the customers should not have to pay for both the cost of insurance and the cost of replacement power, and wait for later reimbursement from the insurance carrier. The OCA said it would prefer that the Company try to more accurately forecast the insurance recoveries and would like to see customers immediately receive the benefits of the insurance proceeds.

C. Commission Staff

Staff said it had conducted an investigation of the filing and had determined that PSNH had appropriately calculated estimated energy service costs in its filing. It recommended that the Commission approve the petition.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV(b)(1)(A), the price for PSNH's energy service rate must allow for recovery of the actual, prudent, and reasonable costs of providing the power, as approved by the Commission. Based on our review of the petition and evidence in the record, we find that the calculations and related documentation support PSNH's request for a mid-term adjustment to its energy service rates. We find PSNH's calculations to be reasonable and we approve the energy service rate of 9.03 cents per kWh for the period of August 1, 2009 through December 31, 2009. We therefore grant the petition as amended.

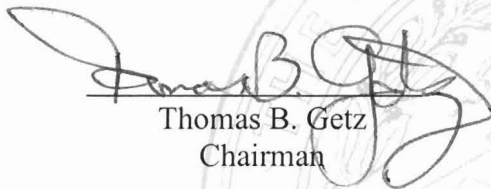
This is one of four orders we are issuing for effect for service rendered on and after August 1, 2009: in the instant docket, the energy service rate adjustment; in DE 08-114, an adjustment to PSNH's stranded cost recovery charge; in DE 09-114, an adjustment to PSNH's transmission cost adjustment mechanism; and in DE 09-035, a temporary adjustment to PSNH's distribution rates. Overall, the average impact of these rate changes effective August 1, 2009 is an approximate decrease of one percent for a PSNH customer purchasing energy from PSNH. PSNH customers purchasing from competitive suppliers will not pay PSNH's energy service rate and will therefore experience different overall rate impacts due to changes in the rates resulting from the other three dockets cited above.

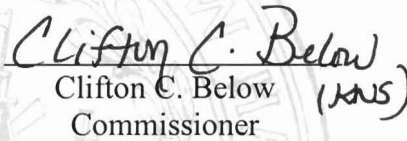
Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire's requested energy service rate of \$0.0903 per kWh effective with service rendered on and after August 1, 2009 is hereby APPROVED; and it is

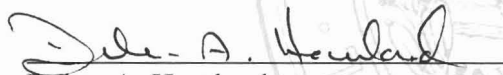
FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff changes that conform with the Order within 30 days hereof.

By order of the Public Utilities Commission of New Hampshire this twenty-fourth day of July, 2009.


Thomas B. Getz
Chairman


Clifton C. Below (HNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director

