

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 09-179

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for 2010 Stranded Cost Recovery Charge

Order Approving Updated Petition

ORDER NO. 25,056

December 22, 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 G. Amidon, Esq., on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On September 24, 2009, Public Service Company of New Hampshire (PSNH) filed testimony and related exhibits supporting an adjustment to its stranded cost recovery charge (SCRC) effective with service rendered on and after January 1, 2010. 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 1.14 cents per kilowatt-hour (kWh), with that rate set to expire on December 31, 2009. By its filing, PSNH requested approval of an increase in the overall average SCRC rate for effect on January 1, 2010. At the time the petition was filed, PSNH estimated an average SCRC rate of 1.02 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. In its updated filing on December 7, 2009, PSNH calculated an SCRC of 1.18 cents per kWh.

The Office of Consumer Advocate (OCA) notified the Commission of its participation on behalf of residential ratepayers consistent with RSA 363:28 on October 1, 2009. An order of notice was issued on October 5, 2009 scheduling a prehearing conference for October 19, 2009. On October 20, 2009, the Staff filed a proposed procedural schedule, which the Commission approved by secretarial letter dated October 26, 2009. In accordance with the procedural schedule, the parties and Staff engaged in discovery and held a technical session on November 17, 2009. Staff filed testimony on November 23, 2009.

On December 7, 2009, PSNH filed an updated SCRC calculation of 1.18 cents per kWh, incorporating updated market data and including in the SCRC certain costs currently recovered through PSNH's energy service rate. The hearing took place on December 10, 2009.

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 Settlement 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, at the time it filed its petition, PSNH calculated that the preliminary average 2010 SCRC rate would be approximately 0.12 cents per kWh lower than the current average rate of 1.14 cents per kWh, or 1.02 cents per kWh. He attributed the expected 2010 rate decrease to lower above-market IPP costs due to higher market IPP costs. 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 on a schedule consistent with a petition for a mid-year modification to its energy service rate and at a time that would allow the parties and Staff sufficient time to review the need for such adjustments.

In its December 7, 2009 updated filing, PSNH proposed an average SCRC rate of 1.18 cents per kWh for effect with service rendered on and after January 1, 2010, as opposed to the rate of 1.02 cents per kWh estimated in the original filing. In the accompanying letter, PSNH explained that customer migration is an issue in its 2010 energy service rate proceeding (Docket No. DE 09-180). PSNH said that it filed supplemental testimony on November 23, 2009 in that docket describing two potential methods for altering the traditional approach to calculating the energy service rate. One of the methods described in that testimony, identified as Method 2, recommended that certain costs be moved out of energy service expenses as they may more properly be recovered through other PSNH rate components. One of those costs is the \$12,507,000 over-market value of a power contract that replaced purchases from the former Bio-Energy generating plant pursuant to a prior rate order.

Consistent with its request that the Commission adopt Method 2 in its energy service rate proceeding, PSNH adjusted its calculation of the SCRC to reflect the over-market value of the

Bio-Energy contract. PSNH said that the difference between its preliminary estimate of an average SCRC rate of 1.02 cents per kWh and the revised average rate of 1.18 cents per kWh is attributable to the addition of the \$12,507,000 over-market value of the Bio-Energy replacement power contract. PSNH concluded by requesting that the Commission approve the average SCRC rate of 1.18 cents per kWh effective for service rendered on and after January 1, 2010.

B. Office of Consumer Advocate

The OCA stated that it had no objection to PSNH's filing for the 2009 SCRC rate.

C. Staff

Steven Mullen, assistant director of the Commission's electric division, filed testimony on November 23, 2009. Mr. Mullen observed that PSNH's SCRC currently consists of Part 1 and Part 2 costs as described in PSNH's testimony. Mr. Mullen testified that PSNH is scheduled to make the final payment on the remaining series of securitization bonds in April 2013, so Part 1 of the SCRC is scheduled to be fully recovered by May 2013.

With respect to the component of Part 2 stranded costs that pertain to the over-market portion of PSNH's power purchases from IPPs, Mr. Mullen stated that PSNH is obligated under existing rate orders and contracts to purchase energy and/or capacity from various IPPs over future periods that extend as far as the year 2023. According to Mr. Mullen, an examination of the pricing terms of those agreements revealed that, for the three agreements that extend the longest into the future, the energy and capacity pricing terms are based on PSNH's avoided costs, or market prices, in the later years of the agreements. With respect to the over-market portion of energy and capacity payments, the last agreement to have a non-market based price is scheduled to terminate in 2018. Therefore, according to Mr. Mullen, the component of Part 2

that relates to the over-market portion of PSNH's energy and capacity purchases will end in 2018.

Mr. Mullen said that the other major component of Part 2, the amortizations of PSNH's up-front payments and its portion of the savings related to prior IPP rate order and contract buy-outs and buy-downs, is scheduled to terminate in the year 2020. To shorten the remaining time for PSNH to collect some of the Part 2 stranded costs, Mr. Mullen proposed that, once Part 1 costs are fully recovered (by May 1, 2013), the Commission allow PSNH to recover the remaining unamortized balance of the buy-out/buy-down regulatory asset by June 30, 2013 rather than through the currently scheduled termination in 2020. Mr. Mullen testified that, as of December 31, 2012, the unamortized balance of the buy-out/buy-down regulatory asset will be \$7,733,451. By continuing to amortize the asset over the remaining lives of the underlying rate orders and contract, the estimated annual amortization for calendar year 2013 would be approximately \$1.8 million. Instead of recovering only \$1.8 million in 2013, Mr. Mullen proposed allowing PSNH to recover the entire \$7.7 million by June 30, 2013. Mr. Mullen said that, pursuant to his proposal, after taking into account normal amortization of the buy-out/buy-down regulatory asset for the first four months of 2013, the monthly amortization expense for May and June 2013 would be approximately \$3.55 million. However, Mr. Mullen pointed out that there would still be a decrease in the total monthly SCRC costs for May and June 2013 as compared to the earlier months of that year due to the termination of Part 1 of the SCRC, which is approximately \$5 million per month.

As proposed by Mr. Mullen, this would provide for full recovery of the buy-out/buy-down regulatory asset on the last date of a period prior to the annual July 1st mid-year adjustment of the SCRC, thereby allowing for a normal adjustment to the SCRC on July 1, 2013. In

addition, Mr. Mullen calculated that, using the currently applicable rate of return, PSNH customers would pay approximately \$1.1 million less in total return on a nominal basis, as compared to continuing with the current amortization and cost recovery schedule, while still allowing PSNH full recovery of its costs. Mr. Mullen further explained that, on a net present value basis, his proposal had a slightly higher value to PSNH due to the fact that PSNH would recover the full amount of the regulatory asset sooner than it would under the current amortization schedule. Mr. Mullen said that the difference in net present value for customers would depend on the assumed discount rate used in the calculations.

Mr. Mullen stated that his proposal for accelerating recovery of the buy-out/buy-down regulatory asset would not impact PSNH's 2010 SCRC costs or revenues, but rather was something for the Commission and other parties to consider for future implementation. At the close of the hearing, Staff stated that it had reviewed the filing and recommended the Commission approve the petition as modified by PSNH's December 7, 2009 filing.

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.

In addition, we find it appropriate to accept PSNH's recommendation to shift recovery of the over-market value of the Bio-Energy replacement contract from PSNH's energy service rate and include those costs in SCRC expenses for purposes of calculating the 2010 SCRC rate. We find that the over-market costs of that replacement contract properly qualify for recovery as stranded costs as they relate to a renegotiated commitment approved by the Commission, consistent with New Hampshire RSA 374-F:2, IV (b). As a result of allowing PSNH to recover the over market value of the Bio-Energy replacement through the SCRC rate, the cost recovery through the energy service rates will be reduced by the same amount yielding lower energy service rates. PSNH's energy service rates are currently under review in docket DE 09-180.

Upon review of the record, we conclude that PSNH's proposed adjustment of the SCRC rate to an overall average of 1.18 cents per kWh beginning with service rendered on and after January 1, 2010 is supported by the evidence and will result in a SCRC rate that is reasonable and lawful. Accordingly, we will approve PSNH's petition as updated by its December 7, 2009 filing.

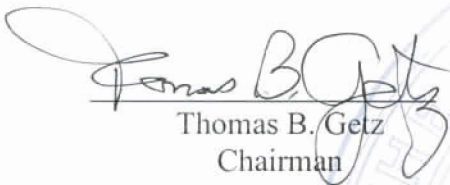
We have reviewed Staff's recommendation that we accelerate PSNH's recovery of the unamortized balance of the IPP buy-out/buy-down regulatory asset to allow for full recovery by June 30, 2013. Based on Staff's calculations, this proposal will cause PSNH's customers to pay approximately \$1.1 million less in total return (on a nominal value basis) while allowing PSNH to recover all of the costs to which it is entitled. This proposal has merit and we will consider adopting this recommendation prior its proposed implementation in 2013.

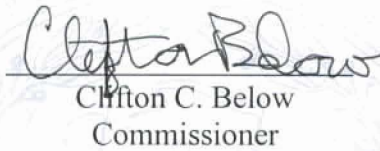
Based upon the foregoing, it is hereby

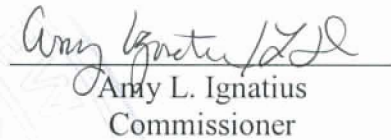
ORDERED, the petition of Public Service Company of New Hampshire for adjustment of its stranded cost recovery charge effective with service rendered on and after January 1, 2010, as updated by its December 7, 2009 filing, is hereby APPROVED; and it is

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


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


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

