

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 10-257

Public Service Company of New Hampshire

Petition for Mid-Year Adjustment to the Energy Service Rate

Order Approving Adjustment

ORDER NO. 25,242

June 28, 2011

APPEARANCES: Gerald M. Eaton, Esq., on behalf of Public Service Company of New Hampshire; the 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 BACKGROUND

On May 4, 2011, Public Service Company of New Hampshire (PSNH) filed a petition with supporting testimony and schedules requesting an interim change to its energy service rate effective with service rendered on and after July 1, 2011. PSNH's current energy service rate is \$0.0867 per kilowatt-hour (kWh) as approved by the Commission in Order No. 25,187 (December 29, 2010). 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 \$0.0874 per kWh, but noted that, as in past mid-year filings, it would update the projected costs and rate calculations in June, prior to the hearing.

The Office of Consumer Advocate (OCA) previously filed a letter on October 5, 2010, stating that it would be participating in the instant docket on behalf of residential ratepayers

consistent with RSA 363:28. An order of notice was issued on May 10, 2011 scheduling a hearing for June 23, 2011. PSNH updated its filing for a mid-year adjustment on June 13, 2011.

On June 3, 2011, PSNH filed a response to Staff data request Set 2-Q-02 with a statement that a portion of the requested information regarding maintenance outage schedules was filed under a motion for protective order dated November 4, 2010 in the instant proceeding.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In its June 13, 2011 update, PSNH proposed an updated energy service rate calculation of \$0.0889 per kWh to be effective July 1, 2011, which is an increase of \$0.0022 per kWh to the current energy service rate of \$0.0867 per kWh. PSNH's updated filing was based on actual results through the end of May 2011 and an updated forecast for the period June through December 2011. PSNH attributed the increase to a slight increase in current and forecast market prices plus additional customer migration.

PSNH also updated the rate of customer migration in the June 13 filing based on actual information available as of the end of May 2011. PSNH said that in its original filing, the then-known rate of customer migration was 32.2% of load, and that as of the end of May, the migration rate was 34.8 percent. In its update, PSNH used a migration rate at the 34.8% level. At hearing, PSNH said that the 34.8% migration rate was the highest that the Company had experienced. PSNH testified that it does not forecast migration but opined that the existing migration would not reverse. According to PSNH, the energy service rate for customers not taking service from a competitive supplier is projected to be approximately \$0.006 higher as a result of customer migration.

Numerous questions were posed to PSNH during the hearing regarding the operation of its Newington Station generating facility. In its May 4 filing, PSNH forecast operation of Newington Station at 85 gigawatt-hours (GWh), but decreased that forecast in its July 13 update to 46 GWh. PSNH said that the 2011 capacity factor for Newington was expected to be 5.6%. The Company said that Newington Station can burn oil or gas, and that while Newington is currently primarily burning gas, its 2011 capacity factor for oil is expected to be about 1.0 percent. PSNH testified that it maintains a residual fuel oil inventory at Newington Station and that, as of December 31, 2010, that inventory consisted of 331,324 barrels of oil with a value of \$18.5 million. PSNH acknowledged that it received a return on the value of the oil inventory as part of the return on rate base calculation.

PSNH said that the amount of oil in inventory would allow the plant to operate on-peak 16 hours a day for about 6 ½ weeks. On June 24, PSNH filed a letter clarifying that if Newington was called on to run at full load around the clock, the oil inventory on hand would be sufficient for the plant to run for approximately 21 days. In response to questioning at hearing, PSNH said that it had explored selling the oil but was not actively pursuing that option. PSNH also agreed that the capacity at its fossil plants was lower in 2011 than in recent years, in part due to the plants being uneconomic at certain hours.

PSNH said that it had proposed other rate changes for effect on July 1, 2011. Those changes include changes to average stranded cost adjustment charge (SCRC) rate (Docket No. DE 10-256), the transmission cost adjustment mechanism (TCAM) rate (Docket No. DE 11-133), and changes to the distribution rate pursuant to the settlement agreement approved by the Commission in Docket No. DE 09-035, PSNH's most recent distribution rate proceeding. *See*, Order No. 25,123 (June 28, 2010). The distribution rate changes include recovery for exogenous

events (Docket No. DE 11-070) and a step adjustment for additions to net plant (Docket No. DE 11-095). In addition, PSNH had requested recovery of wind storm expense (Docket No. DE 11-082) for effect on July 1, 2011. PSNH said that Docket No. DE 11-082 also includes a request to recover through distribution rates the incremental marketing costs associated with PSNH's renewable energy service option pursuant to a settlement agreement approved in Docket No. DE 09-186. *See*, Order No. 25,080 (March 5, 2010).

PSNH testified that the requested change in the energy service rate is a 2.54% increase from the current energy service rate. PSNH requested that the rate change be effective for service rendered on and after July 1, 2011.

B. Office of Consumer Advocate

The OCA stated that it did not support the increased rate. According to the OCA, the rate is over market and exceeds the energy service rate for the other distribution utilities in the state. The OCA pointed out that the effect of customer migration increased the rates by approximately \$25 million over the rate base. The OCA said these higher rates would be borne primarily by residential customers.

The OCA opined that PSNH should take aggressive steps to reduce the cost of service and reduce the inventories of oil and coal or voluntarily forgo a portion of the return – for example, the return earned on fuel inventory – typically included in its rates. The OCA concluded by stating that PSNH had the statutory duty to operate its generation fleet for the benefit of customers and that the results of this filing suggested that it was not meeting that responsibility.

C. Staff

Staff said that, based on its investigation of the filing, the Company calculated the estimated energy service rate for 2011 in the same manner as in prior energy service filings. Staff expressed concern that the trend in customer migration has resulted in increased costs for the customers remaining on PSNH default service. Staff pointed out that PSNH's estimated rates were based on its plans and proposed projects, and that the actual costs would be reviewed in the annual reconciliation of energy and stranded charge costs. Staff concluded by recommending that the Commission approve PSNH's estimated energy service rate of \$0.0889 per kWh for service rendered on and after July 1, 2011.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV(b)(1)(A), 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 rate. We find PSNH's calculations to be reasonable and we approve the energy service rate of \$0.0889 per kWh effective with service rendered on and after July 1, 2011.

While we find the calculations reasonable, we remain concerned about the fact that migration of the large commercial and industrial customers to competitive supply results in higher rates being borne by the customers, principally residential and small commercial customers, remaining on PSNH's default service, compared with what such rates would be absent the high levels of migration. We will address this issue in Docket No. DE 10-160 that we opened to investigate the effects of migration of PSNH's large customers on energy service rates. We also note that the continued operation of Newington Station is being addressed in Docket No.

DE 10-261, PSNH's most recent least cost plan filing. As for the fuel inventory at Newington Station, we have not been presented with any definitive evidence that the level of inventory is excessive. The actual level of inventory held throughout the year can be taken under consideration in both the 2010 energy service reconciliation proceeding, Docket No. DE 11-094, as well as the 2011 reconciliation proceeding that will be filed in May 2012.

For the hearings held on June 23, 2011 in Docket No. DE 10-256, Docket No. DE 10-257, Docket No. DE 11-133 and Docket No. DE 11-082, the Commission takes administrative notice of the hearing record in each proceeding, including record requests, in each of the other dockets.

We note that PSNH filed a portion of its response Staff data request Set 2-Q-02 related to scheduled maintenance outages at its generation plan with a statement that the confidential portion had been redacted and was separately filed pursuant to a motion for protective order dated November 4, 2010. We have reviewed the response *in camera* and agree that is information similar to that for which we granted protective treatment in the earlier portion of this proceeding. *See* Order No. 25,187 (December 29, 2010) at 6-11. Therefore, we shall apply that ruling to the redacted portion of the response to Staff data request Set 2-Q-02.

Finally, this is one of six orders we are issuing for PSNH rates for services rendered on and after July 1, 2011: in the instant docket, a mid-year adjustment to PSNH's energy service rate; in Docket No. DE 10-256, a mid-year adjustment to PSNH's average SCRC rate; in Docket No. DE 11-070, an adjustment to distribution rates for exogenous events; in Docket No. DE 11-082, recovery of wind storm costs and the incremental cost of marketing the renewable energy service option; Docket No. DE 11-095, a step increase to distribution rates for changes to net plant; and Docket No. DE 11-133, an adjustment to the TCAM rate. Overall, the average impact

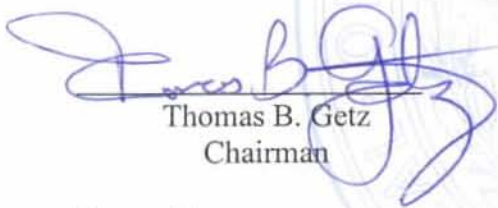
of these rate changes effective July 1, 2011 is an approximate decrease of 1.27% for a PSNH customer that takes its energy service from PSNH (i.e. they do not purchase energy from a competitive supplier).

Based upon the foregoing, it is hereby

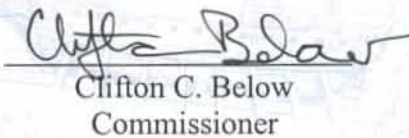
ORDERED, that the petition of Public Service Company of New Hampshire to adjust its energy service rate to \$0.0889 per kWh effective with service rendered on and after July 1, 2011 is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff pages pursuant to Puc Part 1603 that conform with this Order within 30 days hereof.

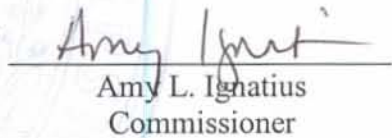
By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of June, 2011.



Thomas B. Getz
Chairman




Clifton C. Below
Commissioner



Amy L. Ignatius
Commissioner

Attested by:



Debra A. Howland
Executive Director