STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 13-275

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Proposed Default Energy Service Rate for 2014

Order Approving 2014 Energy Service Rate

O R D E R N O. 25,614

December 27, 2013

APPEARANCES: Matthew J. Fossum, Esq. on behalf of Public Service Company of New Hampshire; Christophe G. Courchesne, Esq. on behalf of Conservation Law Foundation; Murtha Cullina LLP on behalf of North American Power and Gas, LLC by Robert J. Munnelly, Jr. Esq.; Office of Consumer Advocate by Susan W. Chamberlin, Esq. on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On September 27, 2013, Public Service Company of New Hampshire (PSNH or Company) filed a proposal to establish its default energy service rate to take effect with service rendered on and after January 1, 2014. Pursuant to RSA 369-B:3,IV(b)(1)(A), customers taking default energy service from PSNH are billed an energy service rate equal to PSNH's actual, prudent and reasonable costs of providing power, as approved by the Commission. In its filing, PSNH provided an initial estimate of 0.896 cents per kilowatt-hour (kWh) for the 2014 energy service rate, but stated that a final proposed rate would be filed prior to the hearing to reflect the most recent estimates of fuel and energy costs. In support of its filing, PSNH submitted the testimony and related exhibits of Eric H. Chung, Director of Revenue Requirements for New Hampshire at Northeast Utilities, PSNH's parent company.

On October 11, 2013, PSNH filed supplemental testimony that stated that, due to certain settlements at the Independent System Operator-New England (ISO-NE), PSNH experienced an under-recovery of approximately $1 million. The inclusion of the under-recovery in rates for effect on January 1, 2014 resulted in an estimated energy service rate of 8.99 cents per kWh.

With its filing, PSNH also filed an updated generation report pursuant to Order No. 25,535. PSNH stated that the report contains confidential material and that such material was redacted from the public copy where appropriate. PSNH said that in lieu of immediately filing a motion for confidential treatment, the Company has a good faith basis for seeking confidential treatment of the materials, and that it would submit a motion for confidential treatment prior to the commencement of a hearing on this matter.

The Commission issued an Order of Notice on October 9, 2013 scheduling a prehearing conference for October 28, 2013. On October 11, 2013, the Office of Consumer Advocate (OCA) filed a letter of participation in this docket pursuant to RSA 363:28. Also on October 11, 2013, North American Power and Gas, LLC (NAPG) filed a petition to intervene. Conservation Law Foundation (CLF) filed a petition to intervene on October 23, 2013. On November 15, 2013, the Commission issued Order No. 25,596 granting the intervention of NAPG and CLF and setting the scope of the docket.

On November 27, 2013, Staff filed the testimony of Steven E. Mullen, assistant director of the Commission's electric division. NAPG filed the testimony of Kenneth E. Traum on December 2, 2013.

On December 5, 2013, PSNH filed a motion for confidential treatment of its response to data request OCA 1-17. According to the motion, OCA 1-17 seeks information about the projected operation of Wyman Station, a generating facility in which PSNH holds a minority interest. In its response, PSNH provided information otherwise available to the public, and identified as confidential only that portion of the response dealing with another entity's private plan for the future operations of the station, of which PSNH is aware through its minority interest. The motion also requested confidential treatment of certain operating and maintenance (O&M) information contained in the generation cost report it filed on September 27, 2013 in compliance with Order No. 25,535 (June 27, 2013).

PSNH filed an update to its initial energy service calculation on December 12, 2013. The hearing was held on December 16, 2013 as scheduled. At hearing, the Commission granted PSNH's pending motion for confidential treatment.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In prefiled testimony, PSNH witness Mr. Chung stated that the Company's current energy service rate was established by the Commission in Order No. 25,535 (June 27, 2013), PSNH's 2013 energy service filing. Based on the Company's preliminary calculations, Mr. Chung said that for the period January 1, 2014 through December 31, 2014, PSNH's prudent and reasonable costs of providing energy service was expected to result in an energy service rate of 8.96 cents per kWh. Mr. Chung testified that the estimated 8.96 cents per kWh rate includes the temporary rate of 0.98 cents per kWh approved by the Commission in Order No. 25,346 (April 10, 2012) for recovery of costs associated with the installation of the wet flue gas desulfurization (Scrubber) system at PSNH's Merrimack Station generation unit. *See*, Docket No. DE 11-250, *PSNH Investigation into Scrubber Cost and Scrubber Recovery*.

Mr. Chung testified that the major cost categories comprising the energy service costs are revenue requirements for owned generation assets and the costs of purchased power obligations, the fuel costs associated with PSNH's generation assets, the costs from supplemental energy and capacity purchases, certain ISO-NE ancillary service charges, the cost of compliance with the

New Hampshire Renewable Portfolio Standard (RPS) (RSA 362-F), and the costs of the Regional Greenhouse Gas Initiative (RGGI) (RSA 125-O:19, *et seq*.). The generation revenue requirements include non-fuel costs of generation, including non-fuel operation and maintenance costs, allocated administrative and general costs, depreciation, property and payroll taxes and a return on the net fossil/hydro investment.

PSNH included Independent Power Producer (IPP) generation as a source of power to meet PSNH's load requirements and stated that IPP power costs are based on projected market costs for energy and capacity. PSNH explained that over-market costs of purchases from the IPPs are recovered through Part 2 of the stranded cost recovery charge (SCRC). As market prices change, the value of IPP purchases recovered through the energy service rate also changes. At the same time, however, there is a corresponding change to the SCRC for the above-market value of IPP purchases. To properly match the recovery of IPP costs, PSNH said it also separately filed for a change in the SCRC for effect on January 1, 2014 (Docket No. DE 13-274).

PSNH's energy service rate included the costs associated with the five short-term Wood IPP contracts per Order No. 25,305 (Dec. 20, 2011). PSNH provided details of the "at-market" and "over-market" costs associated with those contracts. In addition, the filing included costs associated with the Burgess BioPower wood-fired generation station which PSNH expected to begin operation sometime in November 2013.[1]

Mr. Chung testified that the level of migration (the percentage of customer load receiving energy supply service from competitive suppliers) assumed in the Company's initial filing reflected the actual August 31, 2013 migration level of 52.0%. In proposing an energy service

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[1] In Docket No. DE 10-195, the Commission approved a contract for the purchase of energy, capacity and renewable energy certificates between PSNH and Berlin Station (formerly Laidlaw Berlin BioPower, LLC) in Order No. 25,213 (April 18, 2011). The generator is now known as Burgess BioPower.

rate for 2013, PSNH said it did not presume that customers will migrate more or less than the current level of 52%.

In its pre-filed testimony, PSNH stated that due to the region's experience with constrained natural gas supply during the winter of 2012-2013, the ISO-NE developed a Winter 2013-2014 Reliability Program. PSNH testified that the 2013-2014 Winter Reliability Program applies to the period beginning December 1, 2013 through February 28, 2014 and consists of four components: demand response; oil inventory service; incentives for dual-fuel units; and market monitoring changes. ISO-NE's June 28, 2013 filing with the Federal Energy Regulatory Commission (FERC) regarding the Winter Reliability Program indicated that these components are time-limited, discreet, out-of-market solutions. Consistent with a September 16, 2013 FERC order, the costs of the Winter Reliability Program will be recovered through energy load. PSNH calculated that the cost allocation of the Winter Reliability Program to its energy service customers for the period is approximately $2.4 million.

PSNH said that it had submitted multiple bid blocks to provide oil inventory for oil-fired generation for the Winter Reliability Program from its dual-fuel unit at Newington Station. PSNH was awarded approximately 100,000 MWh (215,000 barrels) of oil inventory service at Newington Station for a price of $4.8 million for the three month Winter Reliability Program period. Although the program itself has been approved, PSNH stated that at the time of its initial filing, the ISO-NE's contract awards were still awaiting FERC approval; however, at that time the net benefit to energy service customers resulting from PSNH's participation in the Winter Reliability Program was estimated to be approximately $2.4 million. This estimate was revised in the updated filing.

PSNH updated its filing on December 12, 2013. The Company stated that based on the most recent data, it estimated the energy service rate for effect January 1, 2014 to be 9.23 cents per kWh, an increase of 0.24 cents per kWh over the initial estimated rate. PSNH attributed the increase to a reduction in forecasted retail sales of 149 GWh and a net decrease in actual and forecasted costs of $3.1 million. PSNH attributed the change in forecasted retail sales to an increase in the migration rate from 52.0% in its initial filing to 53.7% in the updated filing. In addition, projected wood generation decreased due to the inclusion of a planned outage in the updated filing that had been omitted from the initial filing.

PSNH's December 12, 2013 filing incorporated an updated forecast of forward electric prices. In the update, PSNH forecasted an increase in forward electricity market prices as of November 20, 2013. Because of the increase in forecasted market costs of power, PSNH's updated filing included higher operation costs for its generation fleet because it expected the plants to run more than projected in its initial filing. This projection also resulted in PSNH decreasing expenses by $26.0 million in spot purchases of power primarily due to higher generation and lower loads, and an increase in sales of surplus generation.

In response to Staff's testimony, PSNH's update addressed in detail the incremental costs and risks associated with the ISO-NE 2013-2014 Winter Reliability Program, and calculated that its participation in the program would result in a net benefit of $1.2 million to customers. The Company said that it would not know until the end of February 2014 whether any of the risks actually materialize and that any revenues and costs attributable to the Program would ultimately be reconciled at some point at the end of 2014. PSNH reported that FERC had approved the Winter Reliability contract with Newington and that Newington was currently operating in the Winter Reliability Program.

PSNH's updated filing also took into account an issue raised in Staff's testimony regarding PSNH's initial proposal on how to allocate RGGI excess auction proceeds to all customers as required beginning with RGGI auctions taking place in 2014. Initially PSNH proposed to rebate those amounts through its default energy service rates and assumed that the competitive energy suppliers would credit applicable RGGI proceeds to their energy service customers. In its updated filing, PSNH removed the estimated RGGI rebate monies from the calculation of energy service rates for effect January 1, 2014 and said it would wait until the Commission determined the appropriate mechanism by which to credit all customers the relevant RGGI auction proceeds.

PSNH's update also included a $100,000 under-recovery associated with the Alternate Default Service (ADE) rate that was approved in Docket No. DE 11-216. In that proceeding, the Commission approved a settlement agreement to establish Rate ADE on a pilot basis. *See* Order No. 25,488 (April 8, 2013). The settlement agreement provided that any over- or under-recovery would be included in PSNH's default energy service rates; the under-recovery experienced in the first six months of the operation of Rate ADE is therefore included in this filing.

Finally, PSNH included in its update an under-recovery of $31,388.47 associated with the Renewable Default Energy Service Rate (RDES). PSNH noted that the Commission agreed that the RDES rate could be terminated if the program did not attract at least 1.0 percent of eligible PSNH customers. *See* Order No. 25,511 (May 15, 2013). PSNH noted that it had only 131 customers as of November 30, 2013, well below 1.0%, and that the rate would therefore be closed as of January 1, 2014. Consistent with the settlement agreement approved by the Commission by Order No. 25,080 (March 5, 2010), PSNH proposed in its filing to recoup the under-recovery associated with the RDES rate through PSNH's default energy service rate.

At hearing, PSNH addressed the additional issue of customer migration. In response to questioning, PSNH said that it did not forecast customer migration but preferred to use the customer migration rate extant at the time of the filing for purposes of calculating sales. According to the Company, if it modeled customer migration into sales forecasts, the effect would be a "self-fulfilling prophesy" in that if it predicted customer migration were to increase, energy prices would also increase thus causing more customers to migrate. In the inverse, if the Company were to predict customer migration to decrease, its price may be set so low as to encourage customers to forego competitive options and thereby create pressures on the Company's energy supply portfolio and create the need for more spot market purchases.

PSNH also addressed the ISO-NE settlement issue that resulted in an under-recovery of approximately $1 million, and stated that the costs associated with that particular settlement issue had been resolved and that issue is not expected to repeat. PSNH testified that its filing was consistent with its most recently filed and accepted Least Cost Integrated Resource Plan (LCIRP). PSNH requested approval of the energy service rate in its updated filing to be effective with services rendered on and after January 1, 2014.

B. Conservation Law Foundation

CLF stated that it did not support the energy service rate proposed by the Company and made three observations in its closing. First, CLF argued that the two-part process in setting rates for PSNH—the forecast estimated rate in this docket and the reconciliation of the rate in PSNH's annual reconciliation docket—is grounded in the old paradigm that assumed PSNH's generation units were operating as base load. CLF claimed that no mechanism exists to evaluate PSNH's decision to dispatch its own generation to the detriment of customers. Second, CLF asserted that PSNH operated a "closed book" on discovery because it would not provide information regarding the out-of-merit operations of its plants. Finally, CLF stated that PSNH should incorporate some measure of increased customer migration in the development of its rates. CLF concluded by stating that it looked forward to discussing these matters in future proceedings.

C. North American Power & Gas, LLC

In its prefiled direct testimony, NAPG stated that PSNH's customer migration rate had been rising steadily and consistently ever since PSNH's energy service rates began substantially exceeding prevailing electricity market rates in 2010, and especially into 2011. According to NAPG, PSNH based its 2014 energy service rate on the customer migration rate of 52% in its initial filing in this docket. NAPG argued that PSNH should apply a forecasting approach to migration data that is used in connection with other costs and rate elements in the energy service rate formula. If PSNH applied the historical trend in migration since August 2011 and assumed it continued into 2014, NAPG opined that the migration rate would be at least 56% in 2014, and the result would be an increase of the energy service rate of 0.35 cents per kilowatt hour (kWh). For the sake of conservatism, NAPG recommended that PSNH be directed to increase the energy service rate by 0.3 cents per kWh in order to recognize the trend in migration over the past several years.

In closing, NAPG stated that it does not have a preferred method of establishing a customer migration rate, but that PSNH should be required to forecast migration because assuming that the migration rate would be constant through the rate period results in artificially low rates.

D. Office of Consumer Advocate

The OCA argued that there have been market changes since the development of the two-part rate setting paradigm for PSNH and that the issue needs further examination. The OCA agreed with NAPG that customer migration forecasts should be considered in the calculation of forecast rates.

The OCA argued that PSNH's default energy service residential customers' interests were not being served by the uneconomic dispatch of its plants while shareholders continue to earn on their ownership interest in the Company. The OCA stated that it did not recommend any specific change in this docket but that it remained concerned about the effect on PSNH's default energy service residential customers.

E. Commission Staff

Staff's testimony dealt with two aspects of PSNH's filing. First, Staff disputed whether it was appropriate to credit RGGI rebates received in 2014 through PSNH's default energy service customers when the Legislature directed RGGI excess proceeds to be returned to all electric customers in the State. In response, PSNH in its update omitted the estimated RGGI amounts from the calculation of energy service rates. Second, Staff requested clarification of the estimated costs and risks associated with PSNH's participation in the ISO-NE 2013-2014 Winter Reliability Program and questioned whether PSNH's calculation of a net benefit to customers of $2.4 million took into account all of those costs and risks. In its updated filing, PSNH detailed the costs and risks related to the Winter Reliability Program and adjusted its estimated net benefit to customers to $1.2 million.

Staff also addressed the issue of forecasting customer migration in the calculation of estimated energy service rates for a future period. While Staff did not express agreement with

PSNH's notion of a "self-fulfilling prophesy", Staff took issue with NAPG's methodology in developing a customer migration trend line. Staff noted that the trend line did not take into account economic facts including market analysis or other items that could impact the rate of migration. In addition, Staff noted that the trend line offered by NAPG could be altered depending on the start date, the number of data points used in the trend line, and other factors. On that basis, Staff stated that it did not support any adjustment to rates based on NAPG's proposal. In conclusion, Staff said that it the proposed rate was calculated in a manner consistent with the Company's past practice and that it did not object to the filing as modified by PSNH's December 12, 2013 update.

III. COMMISSION ANALYSIS

Pursuant to RSA 369-B:3, IV(b)(l)(A), the price of PSNH's energy service shall be its "actual, prudent and reasonable costs of providing such power, as approved by the commission." The genesis of the two-part procedure for calculating default service rates, also referred to as energy service rates, and the reconciliation of those rates, lies in RSA 374-F, and the Settlement Agreement in Docket No. DE 99-009, which implemented electric utility restructuring for PSNH, Order No. 23,443 (April 19, 2000), and Order Nos. 24,117 (January 30, 2003) and 24,125 (Feb. 14, 2003) which further refined the mechanism for setting transition service rates, now energy service rates. Because PSNH is entitled to recover its *actual* costs of providing power and those costs cannot be known prior to providing that power, the Commission has adopted a two-step process for setting energy service rates. The first step, which is determined in this docket, is based upon an estimate of future costs for the following calendar year. The second step, which occurs after the power has been produced or purchased and delivered, involves reconciling the estimated rate with the actual costs and reviewing the prudence of those costs.

PSNH has requested an energy service rate of 9.23 cents per kWh for effect with service rendered on and after January 1, 2014 and the Company has provided supporting data and documentation that demonstrates that the rate was correctly calculated. Nonetheless, one of PSNH's competitors, NAPG, alleges that the rate is too low because PSNH did not forecast customer migration in its rates. As counter to that argument, PSNH said in its closing that, for the last half of 2013, the Company experienced an under-recovery of about $103,000, an amount that has no impact on rates, thus demonstrating that, taken as a whole, its costs and revenues were appropriately aligned for the service period.

We have considered the issue raised by NAPG and though we find some merit to the use of a projected migration rate, we do not find the trend line developed by NAPG to be appropriate. We agree with Staff that the trend line developed by NAPG is overly simplified and omits important economic factors. Therefore, we will not require PSNH to make adjustment to its migration assumption in the energy service rate proposed for effect with services rendered on and after January 1, 2014. We do consider, however, that a projection of customer migration is a key factor for PSNH to utilize in estimating its load forecast for any upcoming service period. Therefore, we find it reasonable to require PSNH in its September 2014 filing (for the 2015 energy service rate) to include a migration forecast and testimony that discusses the Company's expectations regarding the movement of customer migration for the forthcoming period. We will not, however, direct PSNH to use a specific methodology in the development of a customer migration indicator, but instead leave to PSNH the development of a migration forecast methodology it deems sound. To allow full discovery on this issue, we require PSNH to make its 2015 energy service filing no later than September 15, 2014. Upon review of the Company's customer migration forecast, we will consider whether it should be part of the overall rate calculation for 2015.

We appreciate the comments of CLF and the OCA regarding the continued use of the two-part ratemaking process for PSNH's rates. They are correct that the process is a vestige of restructuring and the result of our efforts to comply with the requirements of RSA 369-B:3, IV(b)(l)(A). Further, the process is required to a great extent because PSNH continues to own generation units. As the parties know, we have opened an investigation into PSNH's continued ownership of generation units. That investigation should continue in an uninterrupted and orderly manner. Given the investigation, we have concluded that it is inappropriate for the Commission to review the energy service rate-setting and reconciliation process currently in place until such time as that investigation is concluded. Depending on the results of the investigation, we will re-examine the merits of the current process used to set rates for PSNH and consider suitable alternatives that are consistent with statutory requirements.

In addition to the adjustment to the energy service rate, PSNH proposed and adjustment to its average stranded cost recovery charge rate also effective with services on and after January 1, 2014. We approved PSNH's stranded cost adjustment by Order No. 25,610 (Dec. 23, 2013). The effect of these rate changes for a residential customer using 625 kWh per month, the average usage for a residential customer taking default service from PSNH, is a monthly bill increase of 4.97%, or an increase from $106.57 to $111.87. We find this adjustment to be just and reasonable and consistent with RSA 378:5.

Because the request contained in PSNH's filing is an adjustment to rates, pursuant to RSA 378:40 we must consider whether PSNH's request is consistent with its most recently filed LCIRP that was found adequate by the Commission. The most recent LCIRP filed by PSNH in

2010 was found adequate by the Commission in Order No. 25,459 (January 29, 2013). Consistent with RSA 378:41, we find that the proposed adjustment to the energy service rate in the instant proceeding is consistent with the LCIRP filed and found adequate in Order No. 25,459.

Based upon the foregoing, it is hereby

ORDERED, that the petition of Public Service Company of New Hampshire as amended on December 12, 2013 to adjust its energy service rate to 9.23 cents per kWh; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall include a customer migration indicator as discussed in this order in its filing for a 2015 energy service rate and the filing shall be due on September 15, 2014; and it is

FURTHER ORDERED, that 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-seventh day of December, 2013.

Amy L. Ignatius
Chairman

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director