

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-216

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Request to Amend Alternate Default Energy Service Rate

Order Approving Amendment

ORDER NO. 25,739

December 12, 2014

APPEARANCES: Matthew J. Fossum, Esq., on behalf of Public Service Company of New Hampshire; the Office of Consumer Advocate by Susan W. Chamberlin, Esq., on behalf of residential ratepayers; and Suzanne Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves an amendment to PSNH's Alternate Default Service Rate pilot program to take effect January 1, 2015. The amendment changes Rate ADE from an annual rate to a monthly rate. The amendment also requires customers who return to PSNH from a competitive supplier to take service under Rate ADE or commit to taking service under PSNH's default energy service rate for a period of twelve months.

I. PROCEDURAL BACKGROUND

This docket was opened on September 23, 2011, when Public Service Company of New Hampshire (PSNH) filed a proposal to establish an alternate default energy service rate called "Rate ADE." On April 8, 2013, the Commission issued Order No. 25,488 approving a settlement agreement among PSNH, the Office of the Consumer Advocate (OCA), and Commission Staff (Staff) allowing PSNH to implement Rate ADE on a pilot basis. Under the settlement agreement, PSNH set Rate ADE on an annual basis at the same time that PSNH set the price for default energy service (Rate DE). PSNH sets Rate ADE at the marginal cost of energy needed to service Rate ADE customers, plus an adder equal to the non-operating costs of

the wet flue gas desulphurization system (Scrubber) installed at Merrimack Station. PSNH has applied the revenue it receives from the Scrubber adder to offset default energy service costs.¹

On June 23, 2014, the OCA and Staff filed a joint recommendation to close Rate ADE to new customers because Rate ADE had not provided the expected benefits for Rate DE customers. The Commission issued a secretarial letter on June 27, 2014, directing PSNH to suspend new enrollment in the rate and to propose a modification to Rate ADE to address concerns of OCA and Staff.

PSNH filed a proposal to amend Rate ADE on September 15, 2014, and filed a modification of the proposal on October 31. On October 15, 2014, the Commission issued Order No. 25,724 denying a motion to strike filed by intervenor Freedom Energy Logistics LLC (FEL) and scheduling a prehearing conference. The Commission subsequently scheduled a hearing on PSNH's proposal. FEL filed a letter with a brief statement of position and also participated in the hearing.

II. POSITIONS OF THE PARTIES

A. PSNH

In its September 15th filing, PSNH proposed to amend Rate ADE by making the rate applicable only to large industrial customers taking service under Primary General Service Rate GV, Large General Service Rate LG, or Backup Service Rate B. PSNH explained that it sets its default energy service Rate DE by forecasting energy costs for a calendar year and developing an average rate for the entire calendar year, resulting in higher-than-market rates during the shoulder months in Spring and Fall, and lower-than-market rates during the peak Summer and Winter months. During Winter 2013-14, large industrial customers that had been

¹ See Order No. 25,488 (April 8, 2013) for a more complete history of this docket.

purchasing electricity from a competitive supplier returned to PSNH Rate DE during the peak Winter months to take advantage of PSNH's lower rates, and then migrated to competitive supply again when market rates declined. PSNH said that, while more residential customers also migrated to competitive supply, the loads of those customers had less impact on PSNH DE customers.

According to the filing made by PSNH on September 15, 2014, all customers in rate classes GV, LG, and B who were not taking service under Rate DE on January 1, 2015, would only have Rate ADE available as a default service option when and if they took default service. Any customer in those rate classes taking service under Rate DE as of January 1, 2015, would remain on Rate DE for so long as the customer remained with PSNH. If such a customer were to leave Rate DE for competitive supply and then return to PSNH, only Rate ADE would be available. PSNH proposed to eliminate the requirement that a customer would have to take service from a competitive supplier for twelve consecutive months before returning to Rate ADE.

In addition to changing the rate classes eligible for Rate ADE, PSNH proposed to change Rate ADE from an annual rate to a monthly rate. PSNH testified that on or by the 15th of the month, PSNH would file a new rate and tariff pages to take effect on the first of the following month. PSNH testified that it would continue to employ the methodology by which it forecasts costs for Rate ADE; but instead of annualizing Rate ADE, the rate would be set on a monthly basis. The price would be based on a forecast of the marginal cost to provide full requirements service to the New Hampshire load zone. The forecast of market costs includes forward energy market prices, forward capacity market prices, forecasted ancillary service costs, forecasted

Independent System Operator-New England market administration costs, and forecasted renewable portfolio standard compliance costs. PSNH said that any over- or under-recoveries would continue to be reconciled in Rate DE and would not be included in the calculation of Rate ADE.

According to PSNH, by updating the rate on a monthly basis, Rate ADE would track variations in the market more closely than it does now and would help ensure that the rate charged for energy service component of Rate ADE more closely matched the actual costs incurred by PSNH to provide that service. In addition, any over- or under-recovery should be mitigated by using the most current pricing. Further, changing eligibility and pricing terms as proposed would eliminate the need to close Rate ADE to new customers.

The adder component of Rate ADE is equal to the non-operating costs of the Scrubber divided by forecasted energy service sales under Rate DE. Non-operating costs include depreciation and return on rate base including income taxes and any incremental property taxes. PSNH explained that those costs are known and can be calculated and updated as necessary. In its September 15, 2014, filing, PSNH requested that the Commission approve its proposed changes to the pilot program for effect on January 1, 2015.

On October 31, 2014, PSNH filed a modification of its initial proposal. In the modification, PSNH did not change the eligibility for Rate ADE or the methodology by which it would forecast monthly Rate ADE rates. It did, however, add a default service option for Rate LG, Rate GV, and Rate B customers returning to competitive supply. In addition, PSNH proposed that customers returning from the competitive market be afforded the option of taking service under Rate DE or Rate ADE, provided that a customer electing to take service under

Rate DE would have to commit to stay on Rate DE for a twelve-month period. PSNH said this change would provide choice to customers and mitigate the volatile customer migration and reverse migration experienced during 2013-14. PSNH opined that the twelve-month commitment did not constitute a restriction of customer choice, because customers would have the option to take service under Rate ADE on a month-to-month basis.

In addition to providing another option for large customers returning to competitive supply, PSNH's proposed modification would move customers currently taking service under Rate ADE to Rate DE. Such customers would be free to leave Rate DE for competitive supply at any point, but if those customers made the decision to return to PSNH for energy service, they would be offered the same choice described above (Rate ADE on a monthly basis or Rate DE for a year).

PSNH also requested a new effective date of February 1, 2015. According to the company, the additional time would be needed to inform customers of the change in options available to customers returning to competitive supply and to move the Rate ADE customers to Rate DE.

PSNH said that, if its proposal were approved, it would file the tariffed rate for the upcoming month on or about the 15th of the prior month, and each month would include a projection of the rate for some number of months in the future to help customers decide whether to stay on Rate ADE. Because the Commission previously approved the methodology by which it calculated rates, PSNH considers such tariff filings to be in compliance with the pilot program. PSNH intends to implement the changes until June 2016 when the pilot program expires.

B. FEL

In its December 8, 2014, letter, FEL stated that the amended Rate ADE does not meet the statutory requirement that it be based on actual costs. RSA 369-B:3, IV (b)(1)(A). FEL's representative at the hearing reiterated that position.

C. OCA

The OCA supported PSNH's proposed modifications to the Rate ADE pilot program, but urged the Commission to implement the program for effect January 1, 2015, to allow for the greatest possible customer benefit for DE ratepayers, the vast majority of whom are residential customers.

D. Staff

Staff supported PSNH's proposal to modify the Rate ADE pilot program. Staff recommended that the Commission approve the September 14, 2014, proposal as modified by the technical statement filed on October 31, 2014.

Staff opined that changing the rate calculation from an annual calculation to a monthly calculation would provide returning customers with an appropriate price signal, because it would reflect prices in the competitive market. In addition, Staff stated that the rate would comply with the requirements of RSA 369-B:3, IV(b)(1)(A), because it would be market-based, and that the resulting rates would be just and reasonable pursuant to RSA 378:7. Finally, Staff asserted that the proposed modifications are consistent with the restructuring principles in RSA 374-F:3 (e) as an alternative to providing default service while not harming the competitive market.

Staff did not oppose putting the modifications into effect as of January 1, 2015. The Company had said at hearing that it would require sufficient time to implement the changes in the pilot program, but that it could meet a January 1, 2015, effective date if necessary.

III. COMMISSION ANALYSIS

Pursuant to RSA 365:28, the Commission is authorized to modify any order made by it after notice and hearing. In this case, PSNH requests that we modify the Rate ADE pilot program we approved in Order No. 25,488. We have reviewed the record and the positions of the parties, and we find it in the public interest to approve the modifications.

At the outset, we note that we approved the rate-setting and reconciliation methodology for Rate ADE in Order No. 25,488. Specifically, we found that the rate calculation “reflects PSNH’s incremental or marginal cost of providing service to those customers taking Rate ADE, as required by RSA 369-B:3, IV(b)(1)(A).” Order No. 25,488 at 17. PSNH now proposes to calculate the rate on a monthly basis instead of setting it on an annual basis as an average of each monthly rate. We find that the monthly calculation of the rate will more closely follow prices in the competitive market, and we affirm our prior finding that the rate meets the requirements of RSA 369-B:3, IV(b)(1)(A).

We also find it reasonable to restrict Rate ADE eligibility to Rate LG, Rate GV, and Rate B customers. PSNH referenced the Winter 2013-14 period and described the practice of some customers in those rate groups of migrating to and from the competitive market and PSNH depending on which entity offered lower energy service rates. No other party challenged PSNH on this matter. Because the migration loads associated with the customers in Rate LG, Rate GV,

and Rate B significantly outweigh loads associated with residential customers' migration, it is appropriate to limit Rate ADE to those large commercial and industrial rate classes.

In Order No. 25,488, we agreed with PSNH that Rate ADE was simply another alternative for customers. PSNH proposes to provide an additional choice for large customers who return to PSNH for energy supply, while eliminating some unfair shifting of costs. Pursuant to its proposal, such customers could take energy service under Rate ADE service on a month-to-month basis or under Rate DE for a period of twelve months. Given the evidence that customers in the large customer group migrate to Rate DE when the rate is lower than market, and migrate to competitive supply when Rate DE is higher than market, it is reasonable to conclude that these customers' contribution to PSNH's fixed costs of generation is less than the contribution of customers—including residential customers—who have not elected competitive choice. PSNH's proposal would give Rate LG, GV, and B customers the option of selecting service under Rate DE, but the proposal should minimize cost shifting to the other customers on Rate DE. Whether a returning customer takes service under Rate ADE or Rate DE remains the customer's choice.

In approving PSNH's proposal to modify the Rate ADE pilot program, we direct the Company to file each month a compliance tariff that shows the rate applicable under Rate ADE for the following month. Such filings shall be considered compliance filings and will not be subject to notice and hearing. In addition, we remind PSNH that, except as otherwise modified by this Order, the Settlement Agreement remains in full force and effect for the remainder of the term of the pilot program.

Finally, we heard a persuasive argument from the OCA in support of moving the proposed effective date from February 1 to January 1, 2015. We note that PSNH initially asked for a January 1, 2015, effective date, but changed that aspect of its proposal to take into account the time needed to move current Rate ADE customers to Rate DE and to inform the customers taking service under Rate LG, Rate GV, and Rate B of their options upon returning to PSNH from competitive supply. We understand that, while the Company prefers the February 1 date, it is administratively possible to implement the new Rate ADE effective January 1, 2015. We agree with the OCA that it is highly desirable to make the proposed change to take into account as much of the Winter 2014-15 period as possible, and we therefore direct PSNH to implement the proposed changes to the Rate ADE pilot program effective January 1, 2015. Given where we are in the month of December, we request that PSNH calculate the January 2015 rate and publish it no later than December 17, 2014. For subsequent months, we direct PSNH to calculate the rate on the 15th of the month as contained in its initial proposal. For ease of implementation, we will allow all Rate LG, GV, and B customers who give notice to PSNH on or before December 31, 2014, that they are returning to PSNH to be eligible for Rate DE without the twelve month commitment. Customers who provide notice after December 31, 2014, will be put on the new Rate ADE unless they commit to Rate DE for a twelve month period.

Based upon the foregoing, it is hereby

ORDERED, that PSNH's September 15, 2014, proposal as modified by its October 3, 2014, filing to amend the Rate ADE pilot program as approved in Order No. 25,488 is hereby **APPROVED**; and it is

FURTHER ORDERED, that the effective date of the modifications shall be January 1, 2015; and it is

FURTHER ORDERED, that PSNH shall file the Rate ADE tariff on a monthly basis on or about the 15th of the month to comply with this Order.

By order of the Public Utilities Commission of New Hampshire this twelfth day of December, 2014.

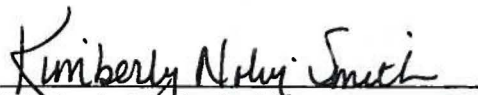


Martin P. Honigberg
Chairman



Robert R. Scott
Commissioner

Attested by:



Kimberly Nolin Smith
Assistant Secretary