STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 15-132

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
D/B/A EVERSOURCE ENERGY

Reconciliation of Energy Service and Stranded Costs and Revenues for 2014
Order Approving Filing

O R D E R N O. 25,935

August 9, 2016

APPEARANCES: Matthew J. Fossum, Esq., on behalf of Public Service Company of New Hampshire d/b/a Eversource Energy; the Office of Consumer Advocate by Donald M. Kreis, Esq., on behalf of residential ratepayers; and Suzanne Amidon, Esq., on behalf of Commission Staff.

In this Order, the Commission approves the reconciliation of energy service and stranded costs for 2014 as filed by Eversource on May 1, 2015. The Order has no impact on Eversource's rates.

I. PROCEDURAL HISTORY

On May 1, 2015, Public Service Company of New Hampshire d/b/a Eversource Energy (Eversource)[1] filed testimony with related schedules in support of its proposed reconciliation of revenue and costs associated with its stranded cost recovery charge (SCRC) rate and its energy service (ES) rate for calendar year 2014.

The SCRC is the mechanism by which Eversource recovers certain stranded costs as allowed under the Agreement to Settle PSNH Restructuring (Restructuring Agreement) approved by the Commission in 2000. *See, PSNH Proposed Restructuring Settlement*, Order No. 23,443 (April 19, 2000) 85 NH PUC 154, Order No. 23,549 (September 8, 2000) 85 NH PUC 536 and Order No. 23,563 (September 29, 2000) 85 NH PUC 645. The Restructuring Agreement defined

[1] Prior to 2015, Commission Orders referred to Public Service Company of New Hampshire as PSNH.

Eversource's stranded costs and categorized them into three parts. As of 2015, Part 1 and Part 3 costs have been fully recovered. Eversource continues to incur Part 2 costs. Part 2 costs consist of ongoing expenses comprised 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 Eversource's share of the present value of the savings associated with those buy-down and buy-out transactions.

Eversource recovers the cost of providing power from its generating units and supplemental power purchases through its ES charge. Such costs include the cost of owning, operating and maintaining Eversource's generation assets, the market price for power purchased by Eversource from IPPs, and the costs of purchases and revenues from sales of energy made in the wholesale market.

In Order No. 24,125 (February 14, 2003), the Commission approved a settlement agreement to implement Eversource's initial SCRC reconciliation which covered the period from May 1, 2001 (the date on which the Eversource service territory was opened to retail competition under the Restructuring Agreement) through December 31, 2001. The Commission directed Eversource to submit, on or before May 1, of each subsequent year, its proposed reconciliation of the previous calendar year's SCRC, transition service[2] and ES revenues and costs. Once Part 1 costs were fully recovered in June 2006, the Commission directed Eversource to reconcile the costs and revenues associated with the procurement of energy service supply in the ES rate. *See* Order No. 24,579 (January 20, 2006).

On May 8, 2015, the Office of Consumer Advocate (OCA) filed a letter of participation pursuant to RSA 363:28. The Commission issued an Order of Notice on July 14, 2015. A hearing was held on May 25, 2016.

[2] Transition service ended on April 30, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. Eversource

Eversource witness Michael L. Shelnitz provided an overview of Eversource's reconciliation of revenues and expenses for the twelve-month period from January 1, 2014, through December 31, 2014. During calendar year 2014, ES costs exceeded revenues by $17.3 million. According to Eversource, it received $18.5 million less in revenues than forecast as a result of increased customer migration to competitive electricity suppliers. The deficit in revenues was offset in part by the fact that expenses were $1.2 million lower than forecast. Eversource excluded the under-recovery associated with the installation of a wet flue gas desulfurization (Scrubber) unit at Merrimack Station from the 2014 reconciliation.

For the SCRC, the net balance as of December 31, 2014, was an under-recovery of $9.6 million. Eversource said that under-recovery primarily resulted from higher above-market IPP costs than forecast in addition to a $5.7 million credit to customers from a Rate Reduction Bonds subaccount.

Frederick B. White described how Eversource met its energy and capacity requirements during 2014. According to Mr. White, Eversource met its customers' energy requirements through Eversource's generation fleet. In addition, Eversource purchased 67.5 MW from Burgess Biopower pursuant to a long-term purchase power agreement (PPA), 2 MW from the Lempster wind farm also pursuant to a PPA, 25 MW in purchases mandated by the Public Utility Regulatory Policy Act, and 20 MW from one IPP buyout replacement contract. Eversource reported that, on average, it met 59% of peak energy requirements and 61% of off-peak energy requirements with its generation fleet and contracted resources. Eversource's remaining energy needs were met through bilateral or spot market energy purchases. The combined expense for all

2014 supplemental energy purchases was $72.7 million. Eversource also experienced times when its generation exceeded its customers' energy needs. For those hours, Eversource sold excess energy into the Independent System Operator-New England (ISO-NE) spot market. The total revenue for all surplus energy sales in 2014 was $53.1 million, which Eversource applied to the calculation of the ES rate.

Eversource also summarized its 2014 market activities in the procurement of market capacity. The capacity market in New England is governed by the Forward Capacity Market (FCM) rules administered by ISO-NE. ISO-NE conducts forward capacity auctions, into which capacity resources offer megawatts to procure the lowest cost resources necessary to meet the ISO-NE installed capacity requirement, and to establish the market value of capacity. The capacity prices established for 2014 were $2.95 per kilowatt (kW) month for the January to May period, and $3.21 per kW month for the June to December period. For 2014, Eversource's owned resources provided 12,472 megawatt months of capacity to ISO-NE, creating $36.3 million in revenue that was included in the calculation of the 2014 energy service rate.

Elizabeth H. Tillotson testified about the operational performance of Eversource's generating units during 2014, including information on all outages that took place at Eversource's fossil-fired, hydroelectric, and biomass units, and at NextEra Energy Resources LLC's Wyman Station Unit No. 4 in Maine, in which Eversource owns a minority interest. According to Eversource, its generation units provided total generation in 2014 equal to 2,090,920 megawatt hours. Ms. Tillotson reported the generation fleet was available 99.1% of the time during the 30 highest priced days when customers' exposure to high market prices is the greatest.

With its filing, Eversource submitted a list of unplanned outages that occurred in 2014 and outage reports for all unscheduled outages in excess of two days that occurred at Newington Station or at the two units at Merrimack Station, and those outages in excess of four days that took place at the three units at Schiller Station and at Wyman Unit 4. Eversource also provided the planned outage schedule for Staff and OCA review. According to Eversource, its operation and management of its generation fleet focuses on maximizing the value of a fuel-diverse fleet with reliable, cost-competitive energy for its customers. Eversource explained that the Company had adjusted its management of its generation units with the goal of balancing long-term operational success and daily operation and maintenance of the units.

At the outset of the hearing, Staff explained that, unlike prior reconciliation investigations, Staff did not hire an engineering consultant to review the 2014 reconciliation filing because, as Eversource testified, there was no remarkable event concerning generation operations in 2014. Eversource testified that the performance of the generation units in 2014 was very similar to the operation in 2013 because the generation units at Merrimack operated about 50 percent of the time. Although the plants are designed to operate anywhere from 70 to 80 percent capacity, in 2014, the plants operated on average 50 percent of the time due to the fact that at many times during the year the market price for power was less than the cost of producing power from Eversource's generation fleet. According to Eversource, prior to 2013, an engineering review would recommend disallowance of up to $30,000 in replacement power costs if the outage could have been avoided or was a result of employee error. For 2013, an engineering review called for a disallowance of about $2,000 for similar outages. In general, because Eversource's generation is not called to run for reliability purposes as it has in the past, there was less opportunity for forced outages, and less chance that those outages would incur replacement power costs. In addition, Eversource said that no 2014 outages occurred that were out of the ordinary.

Eversource averred that the filing demonstrates the reconciliation of the actual, prudent, and reasonable costs for providing energy service and stranded costs in 2014. Accordingly, Eversource recommended that the Commission approve the reconciliation filing.

B. OCA

The OCA said it is a signatory to the settlement agreement that calls for the divestiture of Eversource's generation portfolio. The OCA stated that it continued to believe that the settlement agreement resolves substantially all of the issues the OCA has concerning Eversource and its generation portfolio. Subject to the approval of the settlement agreement, the OCA stated its support for the reconciliation proposed by Eversource.

C. Staff

Staff stated that it had reviewed the filing and determined that Eversource had appropriately calculated the reconciliation of energy service and stranded cost charges consistent with prior dockets and prior orders of the Commission. Staff also said that the Company exercised reasonable and prudent management of the generation assets and market power purchases in 2014, and that, as a result, customers paid the actual costs incurred by Eversource in providing energy service to customers. On that basis, Staff recommended that the Commission approve the filing.

III. COMMISSION ANALYSIS

Based upon the Restructuring Agreement, *PSNH Proposed Restructuring Settlement*, Order No. 23,443 (April 19, 2000) 85 NH PUC 154, Order No. 23,549 (September 8, 2000) 85 NH PUC 536 and Order No. 23,563 (September 29, 2000) 85 NH PUC 645, which resulted *inter* *alia* in the Commission issuing a financing order that securitized certain of Eversource's recoverable stranded costs, Eversource is obligated to use its generation fleet for the provision of its energy service and may recover its "actual, prudent and reasonable costs" in connection with such use of the generation fleet. *See,* RSA 369-B:3, IV(b)(1)(A) (noting that this obligation remains effective until such time as Eversource may divest its generation fleet). To the extent that Eversource must procure retail energy from other sources, we review the prudence of those costs as well. *Id*.

We have reviewed the filing and find that Eversource appropriately calculated its stranded costs and the actual costs incurred in providing energy service. We also find that Eversource prudently incurred those costs as required by RSA 369-B:3, IV(b)(1)(A). On that basis, we accept the filing. With respect to the reconciliation of 2015 energy service and stranded cost revenues and expenses, we direct Staff to engage an engineering consultant to review the operation of the generation fleet.

Based upon the foregoing, it is hereby

ORDERED, the reconciliation of energy service and stranded costs and revenues for 2014 filed by Eversource on May 1, 2015, is hereby APPROVED.

By order of the Public Utilities Commission of New Hampshire this ninth day of August, 2016.

Robert R. Scott
Commissioner

Kathryn M. Bailey
Commissioner

Attested by:

Debra A. Howland
Executive Director