

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-542

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a
EVERSOURCE ENERGY**

Reconciliation of Stranded Cost Recovery and Energy Service Charges for 2015

Order Approving Reconciliation

ORDER NO. 26,011

April 27, 2017

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

In this Order, the Commission approves a reconciliation of Eversource's stranded cost recovery charges and energy service charges for 2015 as requested, except that Eversource agrees to forego the recovery of \$800,000 from customers due to disputed energy service costs. The reconciliation approved in this filing will be implemented in energy service rates that will be considered by the Commission in June and will be effective July 1, 2017.

I. PROCEDURAL HISTORY

On May 2, 2016, Public Service Company of New Hampshire d/b/a Eversource Energy (Eversource) filed testimony with related schedules and exhibits in support of a proposed reconciliation of revenues and costs associated with its stranded cost recovery charge (SCRC) and its energy service (ES) charge, for calendar year 2015.

The SCRC is the mechanism by which Eversource recovers certain restructuring-related 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. 23,433 (April 19, 2000); Order No. 23,549 (September 8, 2000); Order No. 23,563 (September 29, 2000). In *Public Service Co. of N.H.*, Order No. 24,125 (February 14, 2003), the Commission approved a settlement agreement that implemented PSNH's (now Eversource) 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.

Eversource recovers the costs of providing power from its generating units and its supplemental power purchases through the ES charge. In Order No. 24,579 (January 20, 2006), the Commission determined that the reconciliation of revenues collected and prudently incurred costs associated with default energy service would be reconciled in the ES rate.

The Office of Consumer Advocate (OCA) filed a letter of participation in this proceeding pursuant to RSA 363:28 on May 12, 2016. The Commission issued an Order of Notice on August 15, scheduling a prehearing conference for September 12, 2016. Following a period of discovery, on December 15, 2016, Staff filed the testimony of Williams Consulting, Inc. (Williams). Subsequent discussions resulted in a Settlement Agreement among Eversource, Staff, and the OCA which was filed with the Commission on March 7, 2017. A merits hearing was held on March 22, 2017.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-542.html>.

II. INITIAL POSITIONS OF THE PARTIES AND STAFF

A. Eversource

Eversource explained that, as of competition day (May 1, 2001), the Company began to recover costs under the Restructuring Agreement. Eversource continues to recover costs related to the generation and delivery of electricity, but the specific rate structure now in place segments recovery into various components. The four major components of that segmentation are the delivery charge, the transmission cost adjustment mechanism charge, the SCRC, and the ES rate.

ES costs include the fuel costs associated with Eversource's generation, as well as costs and revenues from energy and capacity purchases and sales. Also included, are costs related to the Renewable Portfolio Standard (RSA 362-F) and the Regional Greenhouse Gas Initiative (RSA 125-O). Energy costs include costs associated with Independent Power Producer (IPP) power valued at market prices; revenue requirements of generation such as non-fuel operation and maintenance (O&M); depreciation, property taxes, and payroll taxes; and a return on net generation investment.

The Restructuring Agreement requires Eversource to provide energy service to those customers in its franchise area who do not choose to obtain energy service from a competitive supplier. Since 2004, the ES rate for all retail customers has been based on the Company's forecast of the actual, prudent, and reasonable costs of providing energy service. RSA 369-B:3, IV(b)(1)(A). To develop energy service rates, Eversource prepares an annual forecast of energy costs and proposed rates for the next calendar year, with rates to be effective on a service-rendered basis, beginning January 1 of each year. Eversource includes the estimated costs and revenues in its calculation of ES and SCRC rates for the calendar year, and updates the forecast and ES rates for purposes of implementing a mid-year adjustment for effect on a service-

rendered basis on July 1. Eversource then files a reconciliation of estimated costs and revenues with actual costs and revenues for the past calendar year on May 1 of the subsequent calendar year for a rate effective July 1.

This filing represents the reconciliation of SCRC and ES costs and revenues for calendar year 2015. In pre-filed testimony, Eversource provided an overview of the reconciliation between the revenues and expenses reported in the Company's ES and SCRC filings for the twelve-month period from January 1 through December 31, 2015. Eversource stated that the Company experienced a net adjusted under-recovery balance of \$129.8 million as of December 31, 2015. The net under-recovery was due primarily to deferred costs of \$123.8 million associated with the wet flue gas desulphurization (Scrubber) unit installed at Merrimack Station.¹ The \$6.0 million under-recovery, net of the Scrubber costs, was attributed to revenues being \$21.3 million lower than forecasted, primarily driven by increased customer migration to competitive supply. In addition, O&M costs were \$3.4 million higher than forecasted. The increased costs and lower revenues were offset in part by other expenses that were approximately \$18.7 million lower than forecasted.

When the Commission first approved the SCRC, the cost-recovery mechanism consisted of three parts—Part 1, Part 2, and Part 3. Part 1 costs consisted of the over-market portion of Seabrook regulatory assets, a portion of Eversource's share of Millstone 3, and certain financing costs associated with rate reduction bonds (RRBs). Part 1 cost recovery ended in May 2013 as the RRBs were fully amortized as of the end of April 2013. Part 3 non-securitized costs consisted primarily of the amortization of costs previously deferred as regulatory assets on the

¹ Eversource recovers costs associated with the Scrubber with a surcharge on energy service rates approved by the Commission in Docket No. DE 11-250. *See* Order No. 25,920 (July 1, 2016).

books of PSNH. Part 3 costs were fully recovered as of June 30, 2006. The only remaining costs that continue to be recovered through the SCRC are Part 2 costs.

Part 2 stranded costs include “ongoing” costs consisting of the over-market value of energy purchased from IPPs and 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. In addition, Part 2 costs include a negative return on the credit for deferred taxes related to the Part 1 securitized stranded costs and a return on the unpaid contract obligations to Connecticut Yankee Atomic Power Co., Maine Yankee Atomic Power Co., and Yankee Atomic Energy Corp., net of deferred taxes. During 2015, the total accumulated balance of Part 2 costs decreased by \$6.0 million from \$9.6 million at the end of 2014 to \$3.6 million at the end of 2015. The under-recovery primarily results from a disputed amount in an RRB account that the Commission authorized Eversource to recover in 2016 rates. *See* Order No. 25,855 (December 22, 2015).

Eversource’s filing reported how Eversource’s generation resources and supplemental purchases were utilized to meet energy and capacity requirements for 2015. As a load-serving entity, Eversource must have sufficient energy to meet the hourly needs of its customers, and must also ensure it meets its share of the Independent System Operator-New England (ISO-NE) capacity requirement. Eversource meets its requirements through its owned generation, purchases required by the Public Utility Regulatory Policy Act (PURPA), power purchase agreements, and through supplemental purchases of energy and capacity from the market.

Eversource has a portfolio of resources to meet a portion of its energy requirements. This includes energy from hydroelectric sources (49 megawatts from nine stations), coal and biomass (574 megawatts from Merrimack and Schiller Stations), gas/oil (419 megawatts from Newington

and Wyman Station Unit 4), combustion turbines (82 megawatts from five units), biomass (67.5 megawatts from Burgess Biopower), wind (2 megawatts from Lempster), and 21 megawatts from non-utility generation, such as PURPA-mandated purchases and IPP buy-outs.

During 2015, Eversource met 52% of peak and 57% of off-peak energy requirements from its resource portfolio. Eversource also purchased 1,059 gigawatt hours (GWh) of peak energy for an average cost of \$40.73 per megawatt hour (MWh), and 872 GWh of off-peak energy at an average cost of \$29.67 per MWh. About 843 GWh of off-peak power was purchased via the ISO-NE hourly spot market, and the remaining was purchased bilaterally. The combined expense for all supplemental power purchases totaled \$69 million. When Eversource produced more power than it required, it sold power into the market. The combined revenue of all surplus sales was \$16.9 million.

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 (FCA), into which capacity resources offer MWs, to procure the lowest cost resources necessary to meet ISO-NE installed capacity requirements, and to establish the market value of capacity. The capacity prices established for 2015 were \$3.21 per kilowatt (kW) month for the January to May period, and \$3.43 per kW month for the June to December period. During 2015, Eversource's capacity assets, including owned assets, non-utility IPPs, and the Hydro-Quebec Interconnection Capacity Credits, exceeded capacity market expenses, resulting in a net revenue and credit to ES customers of \$41.3 million.

Eversource included with its filing a summary of the results of all planned and unplanned outages that occurred at its generation plants during 2015. Eversource explained that the 2015

capital and O&M budget reflected some major maintenance activities including turbine work on Merrimack Unit 1 and Schiller Unit 6, as well as routine, cyclic work and some previously deferred outage work. For 2015, generation operating budgets continued to emphasize a balance between spending what is necessary in the most critical areas, while being sensitive to the overall cost of production. In addition, with continued periods of low electrical demand and low power market prices, Eversource adjusted outage duration to use less overtime to minimize costs for customers. Eversource took advantage of unplanned outages to perform additional work to keep the generation units in good operating condition.

Eversource said that its filing was an accurate depiction of its actual, prudent, and reasonable costs incurred in connection with providing energy service to the public, and requested that the Commission accept the reconciliation.

B. Staff

Williams, Staff's consultant, testified that it had reviewed and analyzed the revenue and expense reconciliation of Eversource's ES service for 2015. Williams's review included an assessment of Eversource's purchases and sales of replacement power and the company's capacity to augment its own generation supply, as well as an evaluation of Eversource's generation units, specifically with respect to capital and operations and maintenance expenditures. In addition, Williams examined the causes and durations of outages of the generation units, and considered recommending disallowances and/or operational changes related to those outages. Finally, Williams reviewed an event that affected the Company's day-ahead offers for the August 31, 2015, dispatch of three units in the New Hampshire Load Zone of the ISO-NE.

Williams's summary of its review and analysis is as follows. First, Williams recommended that the Commission accept Eversource's filing as an accurate representation of the energy and capacity purchasing and sales process and transactions that took place in 2015. Second, Williams concluded that, due to reduced capacity factors and to ensure reliability, Eversource demonstrated the willingness and capability to make needed adjustments to its operations and maintenance programs. Third, Williams said that, consistent with the age of the generation units, required operational duty cycles, and good utility practice, Eversource is spending sufficient funds for capital replacement and maintenance to assure continued high performance of its generating units. Finally, Williams concluded that the costs estimated by the Company associated with the August 31, 2015, dispatch event (\$1.2 million) should be borne by the Company and not by ratepayers.

With respect to the dispatch event, Williams explained that Eversource implemented upgrades to the third-party software it uses to provide relevant generator information in ISO-NE's bidding software, "eMarket." As a result of a data input error, on August 31, 2015, Schiller Units 4 and 6 did not clear the ISO-NE day-ahead energy market as they appeared to be unavailable to the market software, resulting in the ISO-NE dispatching other, costlier units. That caused Eversource to lose the opportunity to earn market revenues from the August 31 day-ahead market, and forced Eversource to purchase replacement power from the wholesale market at increased energy prices. Williams recommended disallowance of recovery of \$1.2 million because, based on its review, the error could have been avoided.

III. SETTLEMENT AGREEMENT

Eversource, the OCA, and Staff are parties to the Settlement Agreement. The Settlement Agreement provides that, to resolve all issues that are part of this proceeding, Eversource agrees

to forego recovery of the liquidated amount of \$800,000, with the amount not assigned to any particular matter. The agreement by Eversource to forego recovery is not to be construed as an admission or agreement regarding any issue in this proceeding. Eversource also agrees to promptly inform the Commission, on a confidential basis, of any future Eversource generation dispatch event that would result in an increase to retail customers of \$500,000 or more.

Eversource, the OCA, and Staff all agree that the Settlement Agreement is a just and reasonable resolution of the issues in this proceeding, and is in the public interest.

IV. COMMISSION ANALYSIS

We encourage parties to settle issues through negotiation and compromise because it is an opportunity for creative problem solving, allows the parties to reach a result in line with their expectations, and is often a better alternative to litigation. *Granite State Electric Co.*, Order No. 23,966 at 10 (May 8, 2002). Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order, or default. N.H. Code Admin. Rules Puc 203.20(b) requires the Commission to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. Even where all parties join a settlement agreement, the Commission cannot approve it without independently determining that the results comport with applicable standards. *EnergyNorth Natural Gas Inc. d/b/a National Grid NH*, Order No. 25,202 at 18 (March 10, 2011).

We have reviewed the testimony and the Settlement Agreement and have determined that Eversource appropriately calculated its stranded costs and that the costs Eversource incurred in providing energy service, with the exception of the excess costs associated with the August 31st dispatch incident, were prudently incurred. We find that the agreement to forego \$800,000, in


light of the disputed energy purchases costs is a reasonable compromise that appropriately balances investor and ratepayer interests. We understand that an adjustment corresponding to the terms of the Settlement Agreement will be included in the calculation of ES rates for effect July 1, 2017.

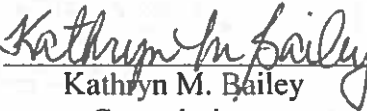
Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement among Eversource, the OCA, and Staff is hereby APPROVED; and it is

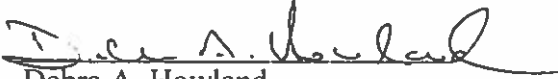
FURTHER ORDERED, that Eversource include the adjustment provided for in the Settlement Agreement in rates for effect on and after July 1, 2017.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of April, 2017.


Martin P. Honigberg
Chairman


Kathryn M. Bailey
Commissioner

Attested by:


Debra A. Howland
Executive Director