

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 08-114

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Adjustment of Stranded Cost Recovery Charge

Order Approving Updated Petition

ORDER NO. 24,923

December 19, 2008

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

On September 12, 2008, Public Service Company of New Hampshire (PSNH) filed testimony and related exhibits supporting an adjustment to its stranded cost recovery charge (SCRC) effective with service rendered on and after January 1, 2009. The SCRC is paid by all PSNH customers and is designed to compensate PSNH for certain costs that would otherwise have been unrecoverable in light of the industry changes brought about by the Electric Industry Restructuring Act, RSA 374-F. Although the SCRC varies by customer class, the current average SCRC rate is 0.65 cents per kilowatt-hour (kWh), with that rate set to expire on December 31, 2008. By its filing, PSNH requested approval of an increase in the overall average SCRC rate for effect on January 1, 2009. At the time the petition was filed, PSNH estimated an average SCRC rate of 0.90 cents per kWh, but did not request approval of a specific rate in its petition. Instead, PSNH indicated it would update its estimates with more recent data prior to the hearing on the merits.

The Office of Consumer Advocate (OCA) notified the Commission of its participation on behalf of residential ratepayers consistent with RSA 363:28 on September 19, 2008. An order of notice was issued on September 22, 2008 scheduling a prehearing conference for October 6, 2008. Following the prehearing conference, on October 7, 2008, the Staff filed a proposed procedural schedule, which the Commission approved by secretarial letter dated October 9, 2008. In accordance with the procedural schedule, the parties and Staff engaged in discovery and held a technical session on November 6, 2008.

On December 2, 2008, PSNH filed an updated SCRC calculation of 0.98 cents per kWh, incorporating updated market data as well as the results of discussions with Staff and OCA. PSNH attributed the change to a \$4.3 million increase of forecasted SCRC costs and a 3 percent decrease in forecasted retail sales. The hearing took place on December 4, 2008.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

In prefiled testimony, Robert A. Baumann, director of revenue regulation and load resources for Northeast Utilities Service Company, an affiliate of PSNH, explained that the SCRC recovers certain costs under the Restructuring Settlement approved by the Commission in Order No. 23,549, *PSNH Proposed Restructuring Settlement*, 85 NH PUC 536 (2000).

According to Mr. Baumann, the Restructuring Settlement defined PSNH's stranded costs and categorized them into three different parts as follows: Part 1 is composed of the rate reduction bond (RRB) charge calculated to recover the costs of repayment of the securitization of the RRBs. Part 2 costs include "ongoing" costs consisting primarily 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 PSNH's share of the

present value of the savings associated with these buy-down and buy-out transactions. Part 3 costs, consisting of non-securitized stranded costs, were fully recovered as of June 30, 2006.

Mr. Baumann noted that, at the time it filed its petition, PSNH anticipated that the preliminary average 2009 SCRC rate would be approximately 0.25 cents per kWh higher than the current average rate of 0.65 cents, or 0.90 cents per kWh. He attributed the expected 2009 rate increase primarily to the expiration of the amortization of \$11.6 million in net credits relating to (i) Clean Air Act equipment, (ii) SO₂ allowance sale proceeds, and (iii) McLane Dam buyout costs. He said that these credits were reflected in the 2008 SCRC rates as approved in Docket No. DE 07-097, and would be fully refunded to customers as of December 31, 2008.

PSNH testified that higher above-market IPP costs and the inclusion of \$3.5 million in IPP costs relating to the proposed settlement agreement with Hemphill Power and Light Company in Docket No. DE 07-122 also contributed to the increase in the SCRC rate. *See Public Service Company of New Hampshire*, Order No. 24,919 (December 5, 2008). Mr. Baumann indicated that if a mid-year rate adjustment to the SCRC is deemed necessary, PSNH would file a petition to change the SCRC rate on a schedule consistent with a petition for a mid-year modification to its energy service rate and at a time that would allow the parties and Staff sufficient time to review the need for such adjustments.

In its updated December 2, 2008 filing, PSNH proposed an average SCRC rate of 0.98 cents per kWh for effect on January 1, 2009, as opposed to the rate of 0.90 cents per kWh estimated in the original filing. At hearing, PSNH testified that the lower forecast market price for energy increased the above market costs associated with the IPPs and, therefore, increased the SCRC. In addition, PSNH explained that its revised sales forecast is approximately three percent lower in the December 2nd filing than in the September 12th filing, resulting in the SCRC

costs being spread over a lower sales base. PSNH attributed the lower sales forecast to general economic conditions currently being experienced as well as price elasticity issues related to the use of a slightly higher 2009 rate than had been used in the prior forecast.

In comparing the proposed SCRC rate of 0.98 cents per kWh to the current rate of 0.65 cents per kWh, PSNH attributed approximately half of the increase to the termination of the refund of the Clean Air Act credits, a quarter of the increase to the above-market prices for IPPs, and the remainder to the lower sales forecast.

PSNH concluded by requesting that the Commission approve the average SCRC rate of 0.98 cents per kWh effective for service rendered on and after January 1, 2009.

B. Office of Consumer Advocate

After questioning PSNH regarding the reasons for its decreased sales forecast, the OCA stated that it had no objection to PSNH's filing for the 2009 SCRC rate.

C. Staff

Staff inquired as to future expectations for the various cost components of the SCRC. PSNH replied that the major variable going forward is the over-market portion of its purchases from IPPs. Other than that, PSNH stated that it did not expect significant changes in the SCRC until the termination of the rate reduction bond costs in 2013. In conclusion, Staff recommended that the Commission approve the petition, as revised on December 2, 2008, for the 2009 SCRC rate.

III. COMMISSION ANALYSIS

RSA 378:7 authorizes us to determine the just, reasonable and lawful rates to be charged by utilities within our jurisdiction. With respect to stranded cost recovery, the Legislature has specifically instructed that any recovery "should be through a non-bypassable,

nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, consistent with the promotion of fully competitive markets and consistent with [the restructuring policy] principles” enumerated in the Electric Utility Restructuring Act. RSA 374-F:3, XII(d). We find that PSNH’s proposal to adjust the SCRC to reflect current market conditions is appropriate and consistent with the Legislature’s guidance.

Upon review of the record, we conclude that PSNH’s proposed adjustment of the SCRC rate to an average of 0.98 cents per kWh beginning with service rendered on and after January 1, 2009 is supported by the evidence and will result in a SCRC rate that is reasonable and lawful. Accordingly, we will approve PSNH’s petition as updated by its December 2, 2008 filing.

Based upon the foregoing, it is hereby

ORDERED, the petition of Public Service Company of New Hampshire for adjustment of stranded cost recovery charge as updated by its December 2, 2008 filing is hereby APPROVED; and it is

FURTHER ORDERED, that PSNH shall file tariffs conforming with this Order within 30 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this nineteenth day of December, 2008.

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Chairman

Graham J. Morrison
Graham J. Morrison (KRS)
Commissioner

Clifton C. Below
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12/19/08 Order No. 24,923 issued and forwarded to all parties.
Copies given to PUC Staff.

Docket #: 08-114

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FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

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