

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 11-184

In the Matter of:

Joint Petition for Approval of Power Purchase and Sale Agreements
and Settlement Agreement

Direct Testimony

of

Thomas C. Frantz
Director – Electric Division

August 22, 2011

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Thomas C. Frantz. I am employed by the New Hampshire
3 Public Utilities Commission as Director of the Electric Division. My
4 business address is 21 S. Fruit St., Suite 10, Concord, New Hampshire
5 03301.

6 **Q. Please summarize your education and professional experience.**

7 A. Please see Attachment TCF-1.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of this testimony is to provide a description of Staff's role in
10 the negotiations that led to the five Power Purchase Agreements (PPAs)
11 and the Settlement, Release and Support Agreement (Settlement
12 Agreement) that are before the Commission and to recommend the
13 expedited approval of the five PPAs and the Settlement Agreement. My
14 testimony also will include a proposal for rate-making treatment
15 associated with these five PPAs. My testimony, along with the testimony
16 of George M. Bald, Commissioner of the Department of Resources and
17 Economic Development (DRED) and Richard C. Labrecque, Manager –
18 Supplemental Energy Sources for Public Service Company of New
19 Hampshire (PSNH), supports this Joint Petition for Approval of the Power
20 Purchase Agreements and the Settlement Agreement.

21 **Q. Does your testimony address public policy objectives or specific**
22 **aspects of the rate effects of the PPAs?**

23 A. While I do discuss public policy objectives/goals that formed the basis of
24 negotiations, additional public policy support is contained in the
25 testimony of Commissioner Bald. The testimony of Mr. Labrecque
26 describes the key terms and conditions of the five PPAs. I also address
27 the expected rate impact of these 5 Wood IPP PPAs.

1 **Q. Could you provide a brief overview of the 5 PPAs?**

2 A. Yes. The PPAs are between PSNH and five New Hampshire wood-fired
3 independent power producers (Wood IPPs). They are Bridgewater Power
4 Company L.P., Pinetree Power Inc., Pinetree Power –Tamworth Inc.,
5 Indeck-Alexandria, LLC, and Springfield Power LLC (collectively the Wood
6 IPPs).

7 The five PPAs are short-duration, unit contingent, energy only power
8 contracts, capped at specific output levels for each plant. Prices can vary
9 based on changes in the wood market, but those changes are also
10 bounded. The base price for energy is set forth in each of the PPAs.
11 Redacted versions of the five PPAs have been provided with the Petition,
12 and unredacted versions have been provided to the Commission along
13 with a Motion for Confidential Treatment.

14 **Q. How did Staff become involved in the negotiations that led to these**
15 **PPAs?**

16 A. Staff was aware that some discussions between the Department of
17 Resources and Economic Development and others were taking place
18 during the spring of 2011. In fact, DRED and the Governor's Office of
19 Energy and Planning had met with Staff to better understand the current
20 state of the electricity markets and the challenges facing the Wood IPPs,
21 but it wasn't until early June that Staff became directly involved in
22 negotiations. Our involvement was at the request of the Governor's
23 Office. Details of that meeting are contained in the testimony of
24 Commissioner Bald.

25 **Q. When you state "our involvement," to whom are you referring?**

26 A. I am referring to the participation of Anne Ross, the Commission's
27 General Counsel, and myself. We were the only two Commission Staff
28 involved in these negotiations.

1 **Q. What was the result of that early June meeting?**

2 A. As Commissioner Bald's testimony states, the Governor believed that the
3 economic effects to the State and, in particular, to the North Country if
4 the Berlin Biomass Project did not go forward and if the Wood IPPs did
5 not continue to operate, were too great to not try and resolve. The
6 Governor strongly believed that a "win-win" solution was possible. He
7 clearly understood the positions of the people at the table that day and
8 when he asked everyone if they were committed to working on finding
9 that "win-win" solution, all expressed their support. The Governor then
10 received commitments from the Wood IPPs and PSNH, as well as Cate
11 Street Capital (the developer of the Berlin project), that they would
12 participate in good faith negotiations and do so expeditiously. He asked
13 Ms. Ross and me to lead those negotiations with the support of
14 Commissioner Bald and his office.

15 **Q. What was the objective or goal of the negotiations?**

16 A. There were multiple objectives as Commissioner Bald states in his
17 testimony. The key objective was to find a solution that allowed the
18 Berlin Biomass Project to get constructed in a timely manner that
19 preserved the economic benefits associated with that project. To allow
20 that to occur meant the Wood IPPs would have to withdraw their New
21 Hampshire Supreme Court appeals of the Commission's decisions in DE
22 10-195 in order for the construction debt financing of the Berlin project
23 to close. Clearly another goal was the retention of the existing jobs at the
24 wood-fired facilities and the many jobs associated with supplying fuel to
25 the plants. Absent these PPAs, the continued operation of the facilities
26 was doubtful based on today's market prices for electricity. The third
27 important factor was that PSNH, the purchaser of the output from the
28 Wood IPPs, made it a condition that the outcome of the negotiations
29 could not adversely affect its Energy Service rate.

1 **Q. Would you explain the PSNH condition? How will that be**
2 **accomplished?**

3 A. The Wood IPP PPAs are expected to be above-market over the term of
4 their contracts. The amount of any above-market costs will depend,
5 primarily, on natural gas prices and weather over the short period of time
6 that these PPAs are in effect. It will also depend on changes in delivered
7 wood prices. The costs associated with the Wood IPP PPAs will be
8 recovered in PSNH's Energy Service rate; however, in order to keep the
9 rate from increasing, the Joint Petitioners have agreed to request from
10 the Commission a cost recovery methodology that moves a specific
11 amount of costs out of the Energy Service rate and into the distribution
12 rate.

13 **Q. What are those costs and how much are you requesting to move out**
14 **of the Energy Service rate and into the distribution rate?**

15 A. The request is to allow PSNH to transfer a liquidated amount of \$8.5
16 million of costs associated with uncollectible and certain administrative
17 expenses in its Energy Service rate to its distribution rate. That will allow
18 the Energy Service rate "head room" to accommodate up to that amount
19 of annual above-market costs of these PPAs without increasing the
20 Energy Service rate. Any above-market costs in excess of the head room
21 would be deferred for future recovery by PSNH. More detail on the
22 requested ratemaking treatment is discussed in the pre-filed testimony of
23 Mr. Labrecque.

24 **Q. Before you describe the pricing and terms contained in the PPAs,**
25 **please provide some context of the negotiation process.**

26 A. Ms. Ross and I met with senior representatives of each plant separately
27 starting in the second week of June. Even though the negotiations were
28 held with representatives of the companies that were in attendance at the
29 June meeting with the Governor, we re-iterated at that first meeting that
30 our goal was to reach a settlement that met the short-term goals of

1 keeping their wood plants running for the near-term, not putting upward
2 pressure on PSNH's Energy Service rate, and allowing the Berlin Biomass
3 project the ability to move forward. The negotiations – to be successful –
4 had to meet those objectives at a minimum, but also required that all six
5 of the Wood IPPs – all six are plaintiffs to the appeals of the
6 Commission's orders in DE 10-195 at the New Hampshire Supreme
7 Court - would agree to withdraw their appeals. In short, this was from
8 the beginning, an "all or nothing" negotiation. And, in my opinion, it had
9 to be at rates, terms and conditions that, after consideration of the clear
10 public benefits obtained by reaching this negotiated settlement, would be
11 found by the Commission to be just and reasonable and in the public
12 interest.

13 **Q. How were the prices, terms and conditions negotiated?**

14 A. Ms. Ross and I first met with each of the projects and discussed their
15 objectives and what each of them was looking to get out of the
16 negotiations. We got a basic understanding of each plant and the
17 challenges they were facing in today's energy market. Then we met with
18 PSNH and discussed PSNH's objectives and concerns. It was clear that
19 initially there was little overlap to what the Wood IPPs wanted and what
20 PSNH believed was appropriate for a PPA. In general, and not
21 unexpectedly, PSNH sought lower rates and shorter terms and the Wood
22 IPPs wanted longer terms and higher rates.

23 Based on several rounds of discussions with each plant, Ms. Ross and I
24 reached the terms and prices contained in the Wood IPP PPAs. The term
25 length is long enough to give the plants some stability while longer term
26 solutions can be evaluated which may aid their long-term viability,
27 perhaps through potential changes in the Renewable Portfolio Standard,
28 RSA 362-F, or for market conditions to change that would allow them to
29 compete successfully in the regional electricity market. At the same

1 time, the term is short enough that the benefits realized by the
2 settlement are not outweighed by the pressure of above-market costs.
3 And there was the concern, at least on the part of Ms. Ross and me, that
4 negotiations are time-consuming and we didn't want to be faced with
5 dealing with the same issues and circumstances six months or twelve
6 months out.

7 **Q. How did you determine the prices that are in the PPAs?**

8 A. They are based on current market conditions, forward prices and
9 operating requirements of the plants. Again, as in the negotiation of the
10 term of the Wood IPP PPAs, higher prices were sought by the Wood IPPs
11 and lower prices by PSNH.

12 **Q. Do you have an opinion whether the rates are just and reasonable to**
13 **PSNH's customers and in the public interest?**

14 A. Yes. The rates accomplish the policy interests described by
15 Commissioner Bald and provide for the purchase and delivery of
16 electricity at a reasonable cost to PSNH customers. I would note that the
17 energy prices in the PPAs, even in the out period of these PPAs, is below
18 the starting price for the first year of the Berlin Biomass facility.
19 Moreover, the energy prices are just and reasonable and in the public interest
20 in the context of the overall settlement of the issues involving PSNH, the
21 Berlin Biomass Facility, and the Wood IPPs.

22 **Q. Do the Wood IPP PPAs include payments for Renewable Energy**
23 **Credits (RECs) or Capacity?**

24 A. No. The goal was to keep these PPAs simple. Estimating the value of two
25 more pricing terms complicated that goal, especially the value of the
26 RECs. Rather than determining whether some plants were or were not
27 New Hampshire Class III eligible or Connecticut Class I eligible or eligible
28 for some part of New Hampshire Class III or Class I, it was easier and
29 better to keep the burden of eligibility on the Wood IPPs.

1 **Q. Have you or PSNH estimated the above market costs of these PPAs?**

2 A. Yes. At the base energy price and maximum output level of each facility,
3 assuming no changes in the energy price due to changes in wood prices,
4 the projected over-market cost of these Wood IPP PPAs would be
5 approximately \$20 million cumulatively over the term of the PPAs. Mr.
6 Labrecque provides additional detail on this subject in his testimony.

7 **Q. Have you or PSNH estimated the rate impact associated with these**
8 **PPAs?**

9 A. Yes, the overall rate impact is approximately \$0.00111 per kWh based on
10 a cents per kWh methodology. Overall, the total delivery rate will
11 increase by 1.66%. As a percentage of total retail revenue, the increase is
12 approximately 0.71%, slightly less for residential customers and slightly
13 more for Rate GV and Rate LG customers. For a residential customer
14 using 500 kWh per month, the effect is a monthly increase of \$0.55.

15 **Q. Please provide your recommendation.**

16 A. Based on the important public benefits described in Commissioner Bald's
17 testimony, I urge the Commission to approve the Settlement, Release and
18 Support Agreement, the Wood IPP PPAs and the proposed ratemaking
19 treatment for PSNH as soon as possible.

EDUCATION AND WORK EXPERIENCE OF THOMAS C. FRANTZ

I received a B.S. degree from the Pennsylvania State University in Environmental Resource Management and completed all course work and research for a M.S. degree in Resource Economics from the University of New Hampshire. My graduate research involved modeling the structure of the New Hampshire economy using an input-output analysis. I have taught college courses in macroeconomics, microeconomics and managerial economics.

I started work at the Commission in 1989 as a staff economist. My work focused primarily on fuel price forecasting and the analysis of economic forecasts. In 1990, I was promoted to Utility Analyst III. My responsibilities concentrated on electric utility issues including analyzing and advising the Commission on cost of capital, rate design, special contract, and fuel and purchased power adjustment clause filings.

In January 1996, I was promoted to the position of Chief Economist. My new responsibilities included administering the Economics Department's research and analysis of economic and utility matters, as well as providing the Commission with expert testimony and advice on economic, utility and public policy issues. My responsibilities also included testifying before the Legislature on utility matters.

The Commission reorganized in late 2001 and I was named Director of the Electric Division. As Director of the Electric Division, I am responsible for the case management of the electric proceedings before the Commission including the day-to-day work of the Staff of the Electric Division. I also continue to provide the Commission and, when requested, the Legislature with advice on electric utility matters.