



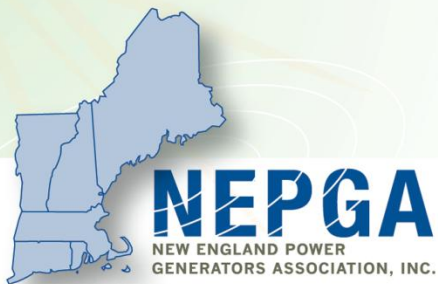
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Attachment 1:

Why New Hampshire Should Complete Electric Restructuring



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WHY NEW HAMPSHIRE SHOULD COMPLETE ELECTRIC RESTRUCTURING

**The New England Power Generators Association
February 2013**

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Why New Hampshire Should Complete Electric Restructuring

Overview

Over a decade ago, the New Hampshire Legislature made the policy choice to restructure the state's electric industry. Consumers have greatly benefited from competition among generation companies and have been increasingly choosing their own retail electric provider to enjoy the lowest cost supply available. Since moving to a competitive generation market⁴, New England has seen power plants operated more efficiently with costs to maintain, update and further develop those facilities borne by the companies making the investments rather than ratepayers. In fact since the late 1990s, generation developers have invested billions in new generation facilities providing over 13,000 MW of new clean generation for New England. At the same time, plant unavailability – or the amount of time that plants are not able to run when asked to do so – has decreased from 22 percent to 14 percent. This reduction alone has powered an additional 1.56 million homes, negating the need to build a number of new power plants.

Today, PSNH keeps much of its generation in the rate-base with costs allocated to rate-payers. At the same time other customers have “migrated” to lower-cost retail electric suppliers leaving remaining PSNH ratepayers to shoulder all the costs of maintaining the utility-owned plants. A dwindling customer base that pays for increasing costs associated with PSNH's generation fleet is not fair to those customers who don't switch nor is it a fiscally viable option for the utility.

The split system is simply unsustainable. The time has come for the state of New Hampshire to complete electric industry restructuring.

In large part because of the historic vestige of utility-owned power generation and the guaranteed return that the utility receives for a plant that may now run only six months

⁴ All New England states, with the exception of Vermont and the PSNH service territory in New Hampshire, have completed electric restructuring.

out of the year, PSNH today has the highest generation costs of any utility in the five restructured New England states. In fact, PSNH's generation rate for residential customers is over 20 percent above the regional average for the five restructured states.

At a time when New Hampshire is working hard to retain and attract businesses and add jobs in a recovering economy it is absolutely critical that the full benefits of a competitive electric market be realized. All New Hampshire electricity consumers, whether served by a utility or an alternative provider, deserve the lowest price that the market can produce. This was the original vision for restructuring and continues to be the right objective.

The Current Public Utility Commission Investigation

In December 2012, the New Hampshire Public Utilities Commission (PUC) approved a significant default energy service rate increase for PSNH noting in its Order that "the fact that the proposed energy service rate are increasing by such a significant percentage impacts PSNH's energy service customers and could exacerbate customer migration." Following up on this Order, the PUC opened an investigation on January 18, 2013 to examine the market conditions affecting the default service of PSNH in the near term and to explore the impact, if any, of PSNH's continued ownership and operation of generation facilities on the competitive electricity market in New Hampshire.⁵ In the Order of Notice opening the investigation, the PUC details market conditions and changes occurring since electric restructuring in 2001 including the large decrease in the price of natural gas, different state environmental regulations and requirements, and the increased authority of competitive energy providers. It references the lower capacity factors at PSNH's plants and higher fixed costs, and highlights two upcoming events which will likely drive prices higher including recovery of the remaining Merrimack scrubber related costs, and the upcoming commercial operation of the Burgess

⁵ New Hampshire Public Utilities Commission Docket 13-020, *Investigation into Market Conditions Affecting PSNH and its Default Service Customers and the Impact of PSNH's Ownership of Generation on the Competitive Electric Market*

BioPower facility, a plant with which PSNH has a purchase power agreement. It is anticipated the investigation will be conducted by mid-year 2013.

The Problem – An Unsustainable Status Quo

As the rest of the state restructured its electric industry in the late 1990s/early 2000s, the Legislature decided to pause the transition in 2003 and allow PSNH to retain its remaining generation assets, out of a belief that the plants would serve as a hedge against a volatile market. By then, PSNH had already divested its interest in Seabrook Station. Nearly a decade later, this policy diversion has put the utility on an unsustainable path whereby its rate-base generation costs continue to rise as more and more customers leave PSNH. The issue is the fewer customers PSNH has to pay its generation costs, the more each customer must pay. This path is risky and costly for consumers, and ultimately unnecessary as a vibrant and competitive market exists today to meet the generation supply needs for all New Hampshire consumers. The costs, risks and alternatives facing policymakers contribute to a sense of urgency to change the status quo. This was acknowledged by PSNH when it petitioned the Public Utility Commission (PUC) in 2010 and requested a non-bypassable charge to recover its excess generation costs. The looming costs to PSNH's generation overhangs this entire discussion and is a main driver of this urgency.

In particular, two factors are at play, creating the current sense of urgency regarding the status quo:

1. ***PSNH Customers are Migrating to Competitive Suppliers*** – Customers in all classes, including large commercial and industrial customers, and smaller commercial and residential customers, are exercising customer choice and switching to competitive electric suppliers. As of December 2012, nearly 44 percent of all electricity load in PSNH's service territory is being provided by competitive suppliers.
2. ***PSNH's Fixed Generation Costs Continue to Rise*** – PSNH began to recover its costs related to the \$430 Million scrubber on Merrimac Station in April 2012, with a temporary rate adder of 0.98 cents per kwh on all default service customers. The

Public Utilities Commission (PUC) is currently considering a PSNH proposal for a “permanent” or two-year rate to recover the remaining scrubber costs, estimated at 1.4 cents per kwh which would go into effect later in 2013. Also PSNH’s purchases from the Burgess BioPower facility will begin in the fall of 2012 when the plant begins commercial operation. Other potential looming generation costs include stricter EPA regulations and a potential cooling tower replacement at Merrimac Station. These escalating costs coupled with the guaranteed rate of return PSNH earns for a plant that only is scheduled to run for six months out of the year contributes to the highest electricity supply costs for any utility in New England. Think of the impact on the consumer.

As fewer customers remain on PSNH electric service, and costs continue to rise, the burden on remaining customers becomes more, causing more customers to leave, representing an unsustainable situation for the utility’s consumers.

The Solution

There are several policy directions the state can pursue to address the unsustainable status quo, including:

1. ***Competitive Procurement of Electric Supply*** – Similar to practices followed by the other two investor-owned utilities in New Hampshire, and utilities throughout New England including PSNH’s affiliates NSTAR and Western Massachusetts Electric in Massachusetts, and Connecticut Light and Power in Connecticut, PSNH can competitively solicit wholesale electric suppliers to fulfill its electric supply obligations to default service customers. Typically, a utility will solicit competitive supply for its larger customers every three months to most closely track the market, and on six-month or annual intervals for smaller customers. As has successfully been done in Maine, suppliers may submit bids to manage any contract entitlements or generation supply owned by a utility, and to supplement with other supply to serve the customers. These processes are typically overseen, or approved, by state utility commissions as is the case for the other two electric utilities in New Hampshire. As detailed more below, if a utility owns generation assets or entitlements it can

competitively bid to serve its own default service supply as well, as long as the assets are in an unregulated subsidiary, with risks borne by investors, not ratepayers.

2. ***Spin Off of PSNH Generation Assets*** – During the legislative debate in 2012 over the potential divestiture of PSNH's generation assets, PSNH repeatedly voiced a desire to retain its generation assets. This can be accomplished, as well as completing electric restructuring, as long as PSNH transfers its assets to an unregulated subsidiary with all costs and risks of generation ownership on company shareholders, not ratepayers. Other utilities across the country have done this and have successfully enhanced competitive supply for consumers.
3. ***Divestiture of PSNH Generation Assets*** – Another option is to follow the lead of many other utilities in New England, including PSNH's affiliates NSTAR, CL&P and WMECO, and sell off generation assets. HB 1238, a bill introduced during the 2012 legislative session, contemplated this approach. As the PUC stated in its June 2011 Order in Docket 10-160, a proceeding which addressed PSNH's request to create a non-bypassable charge on ***all*** customers (even those leaving PSNH service) to recover its excess generation costs, the one proposal that addresses the underlying cause motivating PSNH's request "is the divestiture of PSNH's hydro and fossil assets (page 39)."

It is important to remember that in 2003 when the Legislature decided to delay the divestiture of PSNH's assets, it did not rescind, repeal or change the goal of divestiture, it simply provided that for so long as PSNH continued to own its fossil and hydro plants it would do so in a manner approved by the Commission to provide default service to PSNH customers. During this time, the Legislature adopted a standard for the PUC to determine whether and when the generation assets should be divested – when the Commission finds that the sale of the assets to be in the economic interest of retail customers. Clearly the high level of sustained customer migration from PSNH default service, PSNH's plea for a nonbypassable charge from

the PUC and the looming higher costs for PSNH's generation assets suggest that this standard has been met and PSNH's divestiture of its generation assets is a feasible policy choice.

Any of these three approaches, or a combination of these approaches, would address the current unsustainable status quo.

What Will Not Happen if Electric Restructuring is Completed

During debate over the past decade regarding the completion of electric restructuring, many false arguments have been advanced that have made the process of completing electric restructuring seem unduly complicated or risky. During future debates, it is important to remember that completing electric restructuring:

1. ***Will Not Force the Shutdown of PSNH's Plants*** – A strong market exists for the sale of generation assets. Just recently, in August 2012, Exelon announced the sale of three Maryland coal plants totaling nearly 2,600 MW for approximately \$400 Million. Riverstone Holdings, LLC, the buyer of the coal plants, credited the “experienced workforce and strong record of safe and environmentally sound operation” as features making the purchase of these assets attractive.
2. ***Will Not Be a “Tax” on Electric Supply*** – If the proceeds from the spin-off or the sale of the generation assets are not enough to cover the costs of the plants, any recovery of these costs would not be a “tax” on electric supply. These costs would be the uneconomic costs already incurred by PSNH, and already subject to recovery from ratepayers.
3. ***Will Not Jeopardize Jobs*** – Generation asset buyers typically want to retain employees in an asset purchase as the employees know the plant well and know best how to operate it. In the recent sale of Maryland coal plants, Riverstone Holdings agreed to maintain jobs, with competitive pay and benefits for employees at the plants for these reasons. Similar arrangements existed with the sale of other

New England utility plants including those in New Hampshire.

What Will Happen if Electric Restructuring is Completed

Completing electric restructuring in New Hampshire will allow a host of benefits to accrue to consumers in the state, including:

- ***Shifting the Risk of Capital Investment to Investors From Consumers*** – Under the old-style monopoly regulatory model, any capital investment made on a generation asset would be recovered from ratepayers. Cost overruns such as those seen on PSNH's scrubber project are generally recovered from consumers, not company investors or shareholders. Continuing the status quo would prolong this treatment for PSNH customers. Moving forward with electric restructuring would align PSNH with its sister companies in other states, and the other New Hampshire utilities, and transfer the risk of capital investment in generation to the shareholders and investors of non-utility generation owners, not on ratepayers.
- ***Providing Greater Transparency and Accountability of Electric Costs*** – Moving away from a system whereby PSNH uses its own power plants, at ratepayers' expense, to serve its default service customers allows for greater transparency and accountability. Currently PSNH's generation assets meet only a portion of its default customers' needs, requiring PSNH to go in to the wholesale market and make both short- and long-term electric power purchases to meet its customers' needs. Unfortunately there is no transparency to this process and it is not entirely clear how PSNH makes decisions to enter into these contracts versus the use of its existing rate-base generation. Customers are informed of the decisions after PSNH decides on the purchases and do not have the benefits of knowing what other potential choices were available. Moving to the same procurement model as used by the other New Hampshire utilities and PSNH's sister companies in other states will allow for the necessary transparency in this process and make sure that PSNH customers receive the most competitive default service rate in the market.

- ***Continuing Access to Electric Supply Choice.*** – A decade ago, the New Hampshire Legislature heard the pleas of businesses and consumers and allowed all customers in the state to choose their electric supplier. Overall, 43 percent of electricity sold in PSNH's service territory is from competitive suppliers. If future PSNH costs were to be recovered from all customers through a non-bypassable charge, the availability and incentive for continued electric choice would be significantly limited. Completing electric restructuring allows customers to continue access to true electric supply choice.

Conclusion

The current status quo is not sustainable. Electric restructuring should be completed as it is best for consumers.

As PSNH acknowledged by approaching the PUC in 2010 and requesting a non-bypassable charge, the status quo and its current split system is not sustainable. Nearly two years after PSNH asked for this help from the PUC, more customers have left PSNH, generation costs for PSNH have increased and the market for electricity has led to competitive results for consumers.

The standard for moving forward with completing restructuring – being in the best interest of PSNH's retail customers – is being met. The only way to ensure that consumers can not only continue to enjoy electric supply choice and have access to the lowest cost electric supply available is to complete the restructuring of the state's electric market. There are a number of ways in which New Hampshire can proceed with no single path preordained. PSNH affiliates in other states and other utilities in New Hampshire have completed their exit of the generation market and today are taking advantage of the lowest wholesale energy prices in New England in a decade. Because of this, consumers of other New Hampshire utilities are enjoying lower electricity supply costs. It is time to provide all consumers in the state of New Hampshire with the same benefits of the competitive electric market.

Who We Are

The New England Power Generators Association (NEPGA) is the trade association representing competitive electric generating companies in New England. NEPGA's members represent 80%, or approximately 26,000 megawatts (MW), of all the available generating capacity in New England. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. We believe that sustainable competitive markets are the best means to provide long-term reliable and affordable supplies of electricity for consumers.