

THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire

RECONCILIATION OF STRANDED COSTS AND ENERGY SERVICE CHARGE
FOR 2009

Docket No. DE 10-121

Stipulation and Settlement Agreement

This Stipulation and Settlement Agreement is entered into as of the date written below between Public Service Company of New Hampshire (“PSNH”) and the Staff of the Public Utilities Commission (“Staff”). This Stipulation and Settlement Agreement resolves, and represents a compromise of, all of the issues in this proceeding among the Parties and Staff, except as specifically noted herein.

I. Background

On April 30, 2010, PSNH filed testimony and exhibits with the Commission with respect to the reconciliation of stranded costs and energy service costs incurred in 2009 with revenues recovered in 2009 through the Stranded Cost Recovery Charge (“SCRC”) and Default Energy Service (“Energy Service”) rate.

The Commission conducted a prehearing conference on July 28, 2010, and the Parties and Staff conducted a technical session immediately following the proceeding.

The OCA filed its letter of appearance. Intervention was granted to the New Hampshire Sierra Club, The Conservation Law Foundation (“CLF”), TransCanada Power Marketing Ltd and TransCanada Hydro Northeast Inc. (collectively “TransCanada”). On July 20, 2010, the Commission issued Order No. 25,132 in which it defined the scope of this proceeding and approved a procedural schedule which the Parties and Staff had submitted on June 30, 2010.

On November 9, 2010, the Commission issued its order No. 25,167 denying in part and granting in part several Motions for Protective Order which had been filed by PSNH. Because the information contained in one of the responses covered by a motion was necessary for TransCanada to review and prepare its testimony, Order No. 25,167 amended the procedural schedule providing, *inter alia*, for a hearing on the merits on January 6, 2011. By Secretarial Letter dated December 28, 2010, a hearing on the merits was rescheduled for January 18, 2011.

II. Staff and Intervenor Testimony

A. Staff Testimony

Staff, through its consultant, Accion Group, Inc. (“Accion”) filed testimony on PSNH’s power procurement activities and the operation of its generating stations. Mr. Michael D. Cannata, Jr. of Accion conducted an investigation of PSNH’s capacity and energy transactions in 2009 and the operation of its generating assets and unit entitlements.

Accion concluded that PSNH made sound and prudent management decisions with regard to its capacity and energy purchases consistent with its Least Cost Plan as modified on March 28, 2008. Mr. Cannata also made certain recommendations regarding PSNH’s capacity and energy transactions which are addressed in the Settlement Terms issues below.

Mr. Cannata also reviewed PSNH’s generating station outage reports and conducted interviews with PSNH’s employees regarding the operation and maintenance of its generating plant and entitlements. Accion recommended disallowance of the replacement power costs related to the following outages at PSNH’s units during 2009: Outage Jackman 1-A, Outage Jackman 1-C, Outage Ayers 1-C, Outage Ayers 2-B, Outage Ayers 3-C, Outage Gorham 3-F, Outage Wyman 4-B, Outage Wyman 4-D, and Wyman 4-I. (Outages are identified consistent with Mr. Cannata’s testimony)

The replacement power costs for each of these outages was approximately as follows:

<u>Outage</u>	<u>Replacement Power Cost</u>
Jackman 1-A	\$ 0 ¹
Jackman 1-C	38,101 ²
Ayers 1-C, 2-B, 3-C	232
Gorham	0 ¹
Wyman 4 (all)	12 ³

¹No water was spilled; therefore, there was no lost generation.

²Insurance proceeds received from contractor who caused the 2008 outage have been credited to Energy Service for replacement power costs consistent with the 2008 settlement agreement.

³Wyman 4 would not have been dispatched, but would have been on spinning reserve.

Finally, Mr. Cannata conducted a review of PSNH’s efforts to address the twelve additional recommendations contained in the Stipulation and Settlement Agreement in the previous reconciliation proceeding, Docket No. DE 09-091 made additional recommendations regarding the status of each of those issues.

B. TransCanada Testimony

TransCanada submitted the testimony of Mr. Michael E. Hachey, Vice President and Director of TransCanada, Power Marketing, Ltd. (Eastern Commercial). Mr. Hachey reviewed the power purchases made by PSNH in 2009 and concluded that these purchases were in line with market prices at the time the purchases were made. Although he recommended no disallowances be made, he maintained his position that PSNH's power procurement practices were out of step with the procurement practices of other distribution companies in New Hampshire and New England.

III. Settlement Terms

A. Power Supply and Procurement

PSNH and Staff agree that PSNH's filing contains an accurate representation of the capacity and energy purchases in 2009. PSNH and Staff agree that PSNH made sound management decisions with regard to such purchases, and that capacity factor projections used for 2009 market purchases were reasonable.

B. Recommendations Regarding Capacity and Energy Transactions

Mr. Cannata made several recommendations regarding PSNH's capacity and energy transactions, as shown below:

1. While market prices are depressed due to the factors enumerated on pages 5 and 6 of its testimony, Accion recommends that PSNH should focus more on shorter term arrangements and spot market prices during the two non-peak quarters. (Accion testimony, page 6, lines 6-8 and page 51)
2. To provide some hedge against market fluctuations during the two peak period quarters and to reduce the possibility of large quantities of excess power, Accion recommends PSNH should establish a percentage of its on-peak monthly needs that will be procured from supplemental sources with an established point of measurement, such as an approved load forecast. (Accion testimony, page 6, lines 8-12 and page 51)
3. Accion recommends that PSNH have a clearly defined basis for making short-term purchases or sales that fall outside projected needs. (Accion testimony, page 6, lines 12-14 and page 51)
4. Accion recommends that PSNH review its supplemental needs each quarter as the new load forecast is produced. In its quarterly review, PSNH should formally factor the lagging impact of the econometric input on the load forecast into its supplemental energy purchase decision making process. (Accion testimony, page 6, lines 20-22 and page 52)

5. Accion recommends that PSNH explicitly and formally factor reserve shut-downs into its projection of operation of its units in determining supplemental energy needs, or confirm that it explicitly and formally does so. If reserve shut-downs are projected for its base load units, the between planned outage capacity factor should be adjusted to reflect those reductions, similar to the manner done for the short reliability unit outages. (Accion testimony, page 7, lines 1- 6 and pages 51- 52)
6. Accion recommends that PSNH establish formal criteria governing the sales of purchased surplus supplemental energy into the spot market and that it analyze its purchases and make sales of surplus energy and capacity into markets other than the spot market as it deems appropriate. (Accion testimony, page 7, lines 14-17 and page 52)

PSNH agrees to implement these recommendations; however, these efforts may be superseded by future orders in other Commission proceedings.

C. Unit Outages

PSNH agrees that it will not seek recovery of \$244 of replacement power costs associated with Ayers Island and Wyman 4 outages. PSNH has credited its Energy Service replacement power costs of \$38,101 associated with the 2009 Jackman 1-C outage, as well as with the \$61,541 of insurance proceeds received for constrained operation during 2009 as a result of the 2008 Jackman 1-C outage. PSNH's agreement to forego recovery of such replacement power costs is not an admission of imprudence, and is being done in an effort to reach settlement of these issues.

D. Recommendations Regarding Potential Improvement in Unit Operation

Mr. Cannata made the following recommendations regarding operation and maintenance of PSNH's generating units:

1. Re: Merrimack 2 start-up boiler feed pump and Siemens workmanship issues - PSNH should include with its May 1, 2011 ES/SCRC reconciliation filing a report describing the efforts taken, and results achieved in addressing Siemens' workmanship issues, so similar issues can be avoided going forward. (Accion testimony, page 13, lines 1-8 and page 63)
2. Accion recommends that PSNH review its policy and practices regarding overtime expenditures versus reserve shutdown, on a unit-by-unit basis and between units at all of its major stations, to ensure that units are in an operational state that maximizes customer benefits. (Accion testimony, page 13, line 21 through page 14, line 2 and page 77)

3. Accion recommends PSNH review its existing practices and policies concerning its ability to start planned outages early, on a unit-by-unit basis, to ensure that it economically maximizes the ability to take an outage early while minimizing potential increases in outage duration. (Accion testimony, page 14, line 21 through page 15, line 2 and page 77)
4. Re: Merrimack Combustion Turbines - Accion recommends that fuse coordination, protection device placement, and lightning protection at this and surrounding locations be checked to ensure optimum equipment protection is in place, allowing the most reliable operation of these units. (Accion testimony, page 15, lines 9-12 and page 108)
5. Re: Valve position irregularity - Accion recommends that PSNH establish a procedure that expands its review process to include non-safety related incidents. The intent of the procedure should be to investigate and document events which result in abnormal switching, valving, or operation event takes place. This recommendation applies to all PSNH generation facilities. (Accion testimony, page 15, line 19 through page 16, line 2 and page 108)

PSNH agrees to implement these recommendations.

E. Recommendations Regarding Stipulated Items in Docket No. DE 09-091

There were several recommendations made by Accion in the last reconciliation proceeding, Docket No. DE 09-091. The following is an update on the status of those items which are not yet closed (Note: item numbers are the respective numbers included in the Stipulation and Settlement Agreement in that proceeding):

1 - Mitigation of Customer Costs regarding certain 2008 generation unit outages

Leave open the issue of PSNH's efforts to mitigate customer costs related to the HP/IP turbine outage (Outage MK-2E) and require PSNH to file a report that captures the final monetary resolution as part of its May 1, 2011 ES/SCRC reconciliation filing.

2 – Schiller Warranty Items

Leave open the Forced Draft and Induced Draft Fan Capabilities under Soft Start Conditions issue as the negotiations are still in progress.

Leave open the Air Heater Design issue as the negotiations are still in progress.

Require PSNH to file a report on the open items as part of its May 1, 2011 ES/SCRC reconciliation filing.

5 - Interconnection of PSNH Generating Units to the PSNH Distribution System

Leave this item open as the analysis and implementation is incomplete.

Require PSNH to file an additional report including progress on its analysis of the Schiller CT and unit over speed relays as part of its May 1, 2011 ES/SCRC reconciliation filing.

8 - Hold Manufacturers Responsible for Unreasonable Delays of Shipments of Major Components and Have Shipment Plans in Place

Require PSNH to evaluate if additional tools such as GPS, speed and shock recorders, or other devices or methods should be employed to further augment its “carry safely” and “arrive timely” goals.

Close this item on a contingent basis pending PSNH’s acceptance of further review of the recommended items directly above.

PSNH agrees to continue addressing and completing these items.

F. Recommendation Regarding Refinements to GenIS Data

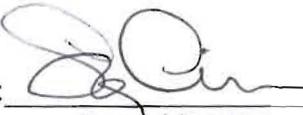
Accion recommends that PSNH should determine what additional information it may need in its GenIS system to perform market based equipment evaluations in the wide variety of plants it operates; take an objective look at its GenIS system capabilities; perform a review of its entire GenIS system; and make appropriate changes which might include a different information system, such as the GADS system. PSNH agrees to implement this recommendation.

G. Miscellaneous

PSNH and Staff acknowledge that the provisions of this Stipulation and Settlement Agreement are interdependent and non-severable and shall not be binding upon, nor deemed to represent the positions of, PSNH and Staff if they are not approved in full without modification or condition by the Commission. PSNH and Staff further acknowledge that this Stipulation and Settlement Agreement is the product of settlement negotiations, that the content of such negotiations shall be deemed to be privileged and that all offers of settlement shall be without prejudice to the positions of PSNH and Staff. The Commission's acceptance of this Stipulation and Settlement shall not constitute precedent or admission by any party in any future proceeding. PSNH and Staff agree to support this Stipulation and Settlement Agreement before the Commission and to take all reasonable actions to implement the terms described herein.

IN WITNESS WHEREOF, PSNH and Staff have caused this Stipulation and Settlement agreement to be duly executed in their respective names by their agents, each being fully authorized to do so on behalf of their principal.

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

By: 
Suzanne G. Amidon, Esq.
Staff Attorney

Date: Jan 11, 2011

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By: 
Gerald M. Eaton, Esq.
Senior Counsel

Date: January 11, 2011