

THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
PREPARED TESTIMONY OF ROBERT A. BAUMANN
2011 DEFAULT ENERGY SERVICE RATE CHANGE
Docket No. DE 10-____

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

2 A. My name is Robert A. Baumann. My business address is 107 Selden Street, Berlin,
3 Connecticut. I am Director, Revenue Regulation & Load Resources for Northeast
4 Utilities Service Company (NUSCO). NUSCO provides centralized services to the
5 Northeast Utilities (NU) operating subsidiaries, including Public Service Company of
6 New Hampshire (PSNH), The Connecticut Light and Power Company, Yankee Gas
7 Services Company and Western Massachusetts Electric Company.

8 **Q. Have you previously testified before the Commission?**

9 A. Yes. I have testified on numerous occasions before the Commission.

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

11 A. The purpose of my testimony is: (1) to provide an overview of this filing; and (2) to seek
12 the necessary approvals to set the Default Energy Service (ES) rate applicable to
13 PSNH's customers who take service under Rate DE that will take effect on January 1,
14 2011.

Q. Please provide the historic and current ES rates.

A. In this proceeding, PSNH is requesting the Commission to determine an updated, single ES rate for all customers effective January 1, 2011, based on a forecast of PSNH's costs of providing such power for the calendar year 2011.

The table below outlines ES rates in effect from May 1, 2001 to the present for residential, small general service customers (Group 1) and large commercial and industrial customers (Group 2).

Date of Service

May 2001 - January 2003	(a) 4.40 cents per kWh
February 2003 - January 2004	(b) 4.60/4.67
February 2004 - July 2004	5.36
August 2004 - January 2005	5.79
February 2005 - July 2005	6.49
August 2005 - January 2006	7.24
February 2006 - June 2006	9.13
July 2006 - December 2006	8.18
January 2007 - June 2007	8.59
July 2007 - December 2007	7.83
January 2008 – June 2008	8.82
July 2008 – December 2008	9.57
January 2009 – July 2009	9.92
August 2009 – December 2009	9.03
January 2010 – June 2010	8.96
July 2010 – December 2010	8.78

- (a) Set by statute for all retail customers.
- (b) Small C&I and residential rate set by statute (4.60 cents).
Large C&I rate set on forecasted costs (4.67 cents).

1 Initially, Energy Service rates were set by statute. Beginning in February 2003, the
2 Energy Service rate for large commercial and industrial customers (Group 2) was based
3 on PSNH's forecast of "actual, prudent and reasonable costs" (4.67 cents). Beginning in
4 February 2004, the Energy Service rate for all retail customers was based on a forecast
5 of PSNH's "actual, prudent and reasonable costs."

6 In its initial decision in Docket No. DE 03-175 (Order No. 24,252), the Commission
7 reiterated its desire to avoid ES cost deferrals. As a way to minimize these deferrals, the
8 Commission provided any interested party the option of making an interim ES rate filing
9 in July, with the objective of setting a revised ES rate effective on August 1.

10 This interim process has been used in recent years. Beginning in 2007, the ES rate year
11 was adjusted to coincide with the calendar year January – December. In 2010, the ES
12 Rate was adjusted effective July 1, 2010.

13 **Q. Is PSNH proposing a specific ES rate at this time?**

14 A. No, we are not. In prior ES proceedings, the Commission has required PSNH to utilize
15 market information that is most current as of the hearing date. In light of that precedent,
16 at this time PSNH is supplying preliminary market data and operational data for its
17 owned generation as well as for existing power purchase obligations (such as IPPs).
18 PSNH will formally propose an ES rate, and provide a rate calculation based on updated
19 market information, prior to the anticipated hearing in December 2010. This updated
20 filing will use the same calculation methodologies as in previous proceedings and will
21 also reflect any updated ES over or under recovery from 2010.

1 **Q. Has PSNH performed a preliminary calculation of what its projected actual,**
2 **prudent, and reasonable costs of providing Energy Service will be from January 1,**
3 **2011 through December 31, 2011?**

4 A. Yes. PSNH has made a preliminary calculation of the ES rate using the latest available
5 information. As shown on Attachment RAB-1, for the period from January 1, 2011
6 through December 31, 2011, PSNH's prudent and reasonable cost of providing ES is
7 projected to be 8.68 cents per kWh.

8 **Q. Please provide an overview of how customers acquire generation services and**
9 **how the ES cost recovery mechanism works.**

10 A. As a result of electric industry restructuring, customers may choose their source of
11 generation service. PSNH's customers may obtain generation service from an approved
12 competitive supplier, or they may choose to continue to receive their energy from PSNH
13 in the form of Default Energy Service.

14 Historically, through January 31, 2006, all ES reconciliation amounts (over or under
15 recoveries) were applied against Part 3 stranded costs. With the elimination of Part 3 of
16 the SCRC in June 2006, all ES reconciliation amounts effective with ES recovery
17 beginning February 1, 2006, were no longer applied to Part 3 stranded costs. ES
18 reconciliation amounts beginning in February 2006 are now being deferred and are
19 applied to future ES rate recoveries per the Commission's order and findings in Docket
20 No.DE 05-164, Order No. 24,579, dated January 20, 2006.

1 **Q. Are the costs that PSNH has included in this ES rate filing consistent with the past**
2 **ES filings?**

3 A. Yes, the major cost categories are consistent. The major cost categories in this ES filing
4 are the revenue requirements for owned generation assets and the costs of purchased
5 power obligations. In addition, Energy Service costs include the fuel costs associated
6 with PSNH's generation assets, the costs from supplemental energy and capacity
7 purchases, certain ISO-NE ancillary service charges and the cost of compliance with the
8 Renewable Portfolio Standard (RPS) and Regional Greenhouse Gas Initiative (RGGI).
9 The generation revenue requirements include non-fuel costs of generation, including
10 non-fuel operation and maintenance costs, allocated administrative and general costs,
11 depreciation, property taxes and payroll taxes, and a return on the net fossil/hydro
12 investment.

13 **Q. Please discuss the level of migration assumed in this filing.**

14 A. The level of migration assumed in PSNH's filing reflects the current actual level of
15 approximately 30.7%. This value represents the actual current migration level on
16 PSNH's system as of August 31, 2010. With respect to Commission's Order in No.
17 25,061 in Docket No. DE 09-180, PSNH has also forecasted two alternative ES
18 migration scenarios and calculated the corresponding ES rates. Actual historic trend of
19 the last eight months was used in developing the high and low migration alternatives.
20 These two alternative scenarios are for discussion purposes only. The results of our
21 calculations are as follows:

1	<u>Average migration percentage</u>	<u>ES rate</u>
2	30.7%	8.68 cents/kwh (Preliminary estimate in this filing)
3	33.1%	8.77
4	28.3%	8.60

5 PSNH has proposed an ES rate based on the latest known migration value at August 31,
6 2010 and has not presumed that customers will migrate more or less than what is now
7 actually known. We recommend that the proposed ES rate be approved, especially in
8 light of unresolved effects that migration is having on the ES rate for small customers
9 which is the subject of another docket, DE 10-160.

10 **Q. How is PSNH's mandated purchased power obligations (IPPs) valued in**
11 **calculating the ES rate?**

12 A. PSNH includes IPP generation as a source of power to meet PSNH's load requirements,
13 and that power is valued based on projected market costs (energy and capacity). The
14 over-market portion of purchases from the IPPs are treated as a stranded cost and
15 recovered through Part 2 of the Stranded Cost Recovery Charge. This treatment is
16 consistent with the Restructuring Settlement and the Commission's Order in Docket DE
17 02-166. As market prices drop, the value of IPP purchases recovered through the ES
18 rate drops. However, at the same time, there is a corresponding increase to the SCRC
19 rate for the above-market value of IPP purchases. To properly match the recovery of
20 IPP costs, PSNH will also simultaneously file for a change in the SCRC rate effective
21 January 1, 2011.

1 **Q. Does PSNH plan to minimize cost deferrals through a mid-term adjustment?**

2 A. If a rate adjustment is deemed necessary, PSNH (or any interested party) could file a
3 petition in early June prior to the beginning of the second half of the Energy Service Year
4 requesting a change in the Default Energy Service for the remaining six months of the
5 year. The Commission would revisit the rate in an abbreviated investigation. PSNH
6 would submit actual and estimated data on a date specified by the Commission to allow
7 the parties and Staff sufficient time to address the need for an interim adjustment during
8 the 2011 Energy Service Year.

9 **Q. Please describe the detailed support for the calculation of the ES rate.**

10 A. Attachment RAB-2 provides detailed cost and revenue components relating to PSNH's
11 generating costs, and also provides a breakdown of market purchases and sales. Page
12 3 of the attachment provides further detail relating to the energy simulation for the period
13 January 1, 2011 through December 31, 2011. Page 4 provides further detail on the
14 forecasted market value of IPP generation. Page 5 provides a breakdown of
15 Fossil/Hydro Operation and Maintenance costs and page 6 provides a detailed
16 calculation of the return on Fossil/Hydro investment. Attachment RAB-3 provides the
17 detailed cost and revenue components relating to the reconciliation of 2010.

18 **Q. Does PSNH require Commission approval of this rate by a specific date?**

19 A. Yes, PSNH needs final approval of the proposed ES rate by December, 30 2010, in
20 order to implement the new rate for service rendered on and after January 1, 2011.
21 Therefore, PSNH requests that the Commission commence a proceeding so that the
22 procedural schedule can be set to review this filing and approve the ES rate in a timely
23 manner.

1 **Q.** **Does this conclude your testimony?**

2 **A.** Yes, it does.