

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 2010

Docket No. DE 11-094

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”), hereinafter “PSNH and the Staff.” This Stipulation and Settlement Agreement resolves, and represents a compromise of all of the issues in this proceeding between PSNH and the Staff, except as specifically noted herein.

I. Background

On May 2, 2011, PSNH filed testimony and exhibits with the Commission with respect to the reconciliation of stranded costs and energy service costs incurred in 2010 with revenues received in 2010 through the Stranded Cost Recovery Charge (“SCRC”) and Default Energy Service (“Energy Service”) rate.

The Office of Consumer Advocate (“OCA”) filed its notice of participation on May 11, 2011. There were no intervenors. The Commission conducted a prehearing conference on June 9, 2011, and the OCA, PSNH and the Staff held a technical session immediately following the proceeding. By Secretarial Letter dated June 14, 2011, the Commission approved a procedural schedule in this proceeding. Discovery was conducted on PSNH’s filing, and technical

sessions were held on August 24 and November 15, 2011. Staff testimony was filed on October 14, 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., P.E. of Accion conducted an investigation of PSNH’s capacity and energy transactions in 2010 and the operation of its generating assets and unit entitlements.

Accion reviewed materials and interviewed PSNH employees regarding its supplemental energy and capacity purchases and sales. Accion concluded that PSNH made sound and prudent management decisions with regard to its capacity and energy purchases consistent with its Least Cost Plan in effect for 2010. Accion observed that PSNH developed additional procedures to govern all aspects of supplemental energy purchases and sales which limit exposure to market forces. Accion determined that PSNH’s actions conformed with the stipulation and settlement agreement approved in Docket No. DE 10-121 where the Company agreed to focus more on short-term purchases and sales of both energy and capacity.

Accion reviewed PSNH’s outage reports and conducted interviews with PSNH’s employees regarding the operation and maintenance of its generating plant and entitlements. Accion found that PSNH base load units generally performed as well or better than forecasted from an availability perspective with very high availability on the highest priced energy days during 2010. In connection with the review of unit outages, Accion made

additional recommendations regarding potential improvements in unit operations. Those recommendations are detailed in Section IV. D below.

Finally, Accion conducted a review of PSNH's efforts to address the recommendations contained in the stipulations in the previous reconciliation proceedings, Docket No. DE 09-091 and DE 10-121. The status of those items is addressed in Section IV. E below.

III. Outages with Recommended Disallowances of Replacement Power Costs

Accion recommended disallowance of the replacement power costs related to outages at PSNH's units: Schiller Outage 4-C, Ayers Outage 1-D, Ayers Outage 2-C, and Wyman Outage 4-N.

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

<u>Outage</u>	<u>Replacement Power Cost</u>
Schiller 4 Outage C	\$ 0 ¹
Ayers Island Outage 1-D	110
Ayers Island Outage 2-C	450
Wyman Outage 4-N	0 ²

¹ PSNH computed the replacement power costs as a negative \$2,961 as Schiller 4's cost would have been over market during this period returning from a scheduled maintenance outage.

² During the time period that the outage occurred, real-time spinning reserve prices were \$0.

IV. Settlement Terms

A. Power Supply and Procurement

PSNH and the Staff agree that PSNH's filing contains an accurate representation of the capacity and energy purchases in 2010. PSNH and the Staff agree that PSNH made sound management decisions with regard to such purchases, and that capacity factor projections used for 2010 market purchases were reasonable.

B. Recommendations Regarding Capacity and Energy Transactions

PSNH will continue to focus on the short-term market in the near future as market prices remain depressed due to low economic activity, growth, and fuel prices resulting in lower market energy prices.

C. Unit Outages

PSNH agrees that it will not seek recovery of \$560 of replacement power costs associated with Ayers Island outages 1-D and 2-C discussed above. PSNH's agreement to forego recovery of such replacement power costs is not an admission of imprudence for any of the outages 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: Outage MK 1-G. This outage occurred after the unit returned from its annual overhaul and went into a lengthy period of economic reserve shutdown due to low market energy prices. When requested to start on November 8, 2010, the starting cyclone lost fuel and tripped the unit due to coal thin out. Accion recommends that PSNH review unit startup

procedures for all its major units (Merrimack, Schiller, and Newington) to determine if changes need to be made to start-up procedures when coming on line after longer than normal downtimes (Accion testimony, page 11, lines 9-12, page 59 and page 62)

2. Re: Schiller Outage 4-A. Schiller Unit 4 was returning from its annual maintenance overhaul and was in start-up mode when a leak developed in an air injection gasket. Start-up was halted until this leak was repaired and eleven hours of critical path were lost. When any contractor or company personnel suspects that gasket installations are problematic, Accion recommends that PSNH management should be notified of such problems to evaluate the need for rework at that time within the confines of the existing outage schedule rather than potentially impede the maintenance schedule at the conclusion of the outage. This recommendation should be implemented at all plants. (Accion testimony, page 11, line 19 through page 12, line 2 and page 70)
3. Re: Canaan, Outages 1-C, 1-3 D, 1-E, 1-F, 1-G, 1-K, and 1-M. Accion recommends that a vegetation inspection of the 355 and 355X main line 4.5kV circuits be performed, and that the results be filed with the 2012 reconciliation filing. Accion also recommends that a final determination of recoupment of replacement power costs associated with these outages be deferred to the ES/SCRC 2012 filing. (Accion testimony, page 12, line 11-15, pages 85-88 and page 100)
4. Re: Garvins Falls Outage M-A and Hooksett Outages 1-A, 1-B, 1-C. Accion recommends that a vegetation inspection of the 335/332 main line 34.5kV circuits (including the tap to Hooksett Hydro) be performed, and that the results be filed with the ES/SCRC 2012 reconciliation filing. Accion recommends that a final determination of recoupment of replacement power costs associated with these outages be deferred to the ES/SCRC 2012 filing. (Accion testimony, page 12, lines 21 through page 13, line 2 and pages 90, 97 and 101)
5. Re: Planning for emergent issues at small hydro stations. Accion recommends that PSNH focus its non-destructive examinations (NDE) on major hydro components (runners, draft tubes, etc.), and develop a comprehensive plan to address the results of the NDE examinations. To be more specific,

Accion expects that items such as exciters, runners, step-up transformers, rotors, stators, and draft tubes be explicitly addressed. (Accion testimony, page 14, lines 16-20 and page 101)

PSNH agrees to implement these recommendations. PSNH will conduct the vegetation inspections discussed in items D.3 and D.4 in 2011 and the results will be included in the May 1, 2012 filing of the reconciliation of 2011 energy service and stranded cost recovery charge revenues and costs.

E. Recommendations Regarding Stipulated Items in Docket Nos. DE 09-091 and DE 10-121

There were several recommendations made by Accion in Docket No. DE 09-091 which were left open for this review and new items identified in DE 10-121 for further review. The following is an update on the status of those items which were not yet closed (Note: item numbers are the respective numbers included in the Stipulation and Settlement Agreement in that proceeding):

PSNH agrees to continue addressing and completing these open items:

- 2010-1 – Litigation over \$1,000,000 insurance deductible associated with Merrimack 2 Turbine problems.
- 2009-5 - Interconnection of PSNH Generating Units to the PSNH Distribution System

PSNH and the Staff agreed to close the following items as the commitments have been satisfied.

1. 2009-1 - Mitigation of Customer Costs regarding certain 2008 generation unit outages

Close Outage MK-2E when PSNH files a complete accounting of proceeds and credits with the Commission.

2. 2009-2 – Schiller Warranty Items

Close both the Forced Draft and Induced Draft Fan Capabilities under Soft Start Conditions Issue and the Inlet Duct Design Issue when PSNH files a complete accounting of proceeds and credits with the Commission..

3. 2009-8 - Hold Manufacturers Responsible for Unreasonable Delays of Shipments of Major Components and Have Shipment Plans in Place
4. 2010-1 – Siemens' Workmanship Issues (MK-2 Annual maintenance Overhaul – Outage 2-H)
5. 2010-2 – Policies and Practices Review of Overtime Expenditures versus Reserve Shutdown
6. 2010-3 – Policies and Practices Regarding Early Start of Planned Outages
7. 2010-4 – Coordination Studies in the Area of the Merrimack Combustion Turbines
8. 2010-5 – Valve Position Irregularity
9. 2010-6 – GenIS Outage Data base Refinements
10. 2010-7 – Focus Purchases on the Shorter Term in Non-Peak Quarters
11. 2010-8 – Establish Percentage of Supplemental Energy Purchased in Two Peak Quarters
12. 2010-9 – Establish Formal Basis for Non-Hedge Short-Term Purchases and Sales
13. 2010-10 – Quarterly Review of Supplemental Energy Needs
14. 2010-11 – Formally Factor Economic Reserve Shutdowns into Supplemental Energy Purchase Process
15. 2010-12 – Establish Formal Criteria for the Sale of Supplemental Energy Purchases that Become Surplus

G. Unresolved Issue.

PSNH and Staff were unable to agree to the following recommendation by Accion:

Outages at small hydro units. Accion recommended that PSNH obtain the in-house ability to perform transient stability analysis to aid in the resolution of inadvertent generator overtrips caused by faults on the distribution system, and to aid in the determination of proper time delays of undervoltage relays to maintain stability for properly cleared faults. (Accion testimony, page 13, lines 14 -17 and page 101)

The Staff supports this recommendation. PSNH would like to investigate the costs associated with acquiring the tools to perform these studies and the details involved with developing and maintaining the in-house expertise. The Staff and PSNH agree to present this issue to the Commission at hearing.

H. Miscellaneous

PSNH and the 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 the Staff if they are not approved in full without modification or condition by the Commission. PSNH and the 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 the PSNH and the 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 the 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 the Staff have caused this Stipulation 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: _____ Date: _____
Suzanne G. Amidon, Esq.
Staff Attorney

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

By: Gerald M. Eaton Date: November 22 2011
Gerald M. Eaton, Esq.
Senior Counsel