

**THE STATE OF NEW HAMPSHIRE**  
**BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**  
**PREPARED TESTIMONY OF ERIC H. CHUNG**  
**2014 DEFAULT ENERGY SERVICE RATE CHANGE**  
**Docket No. DE 13-XXX**

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

2 A. My name is Eric H. Chung. My business address is 1 NSTAR Way, Westwood, MA  
3 02142. My position is Director of Revenue Requirements for Massachusetts and New  
4 Hampshire at Northeast Utilities.

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

6 A. No, this is my first time testifying before the Commission.

7 **Q. Please describe your educational background.**

8 A. I have a Bachelor of Arts in physics with honors from Harvard University, as well as a  
9 Master's of Business Administration in finance and economics from the University of  
10 Chicago Booth School of Business.

11 **Q. Please describe your professional experience.**

12 A. I was appointed to my current position at Northeast Utilities in August 2013, and I have  
13 over fifteen years of related management consulting and industry experience, with most  
14 of my career dedicated to the power and utilities sectors. From May 2011 to August  
15 2013, I was a Senior Manager in the Power Utilities Advisory practice at Ernst and  
16 Young LLP. From July 2009 to April 2011, I worked for PacifiCorp, a vertically-

1 integrated electric utility based in Portland, OR serving approximately 1.7 million  
2 customers across six states in the Western U.S. At PacifiCorp, my primary role was  
3 Director of Environmental Policy and Strategy, and I also held leadership roles in  
4 PacifiCorp's Transmission and Corporate Finance departments. I have also served as  
5 an Associate Partner in the Utilities practice at Oliver Wyman, a Senior Engagement  
6 Manager in the Power practice at Strategic Decisions Group, and a Senior Programmer  
7 Analyst at Goldman Sachs.

8 **Q. What are your current responsibilities?**

9 A. I am currently responsible for all regulatory activity affecting the financial requirements of  
10 Northeast Utilities' operating companies located in Massachusetts and New Hampshire.

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

12 A. The purpose of my testimony is: (1) to provide an overview of this filing; and (2) to seek  
13 the necessary approvals to set the Default Energy Service (ES) rate applicable to  
14 PSNH's customers who take service under Rate DE that will take effect on January 1,  
15 2014.

16 **Q. Please provide the historic and current ES rates.**

17 A. In this proceeding, PSNH is requesting the Commission determine an updated, single  
18 ES rate for all eligible customers effective January 1, 2014, based on a forecast of  
19 PSNH's costs of providing such power for the calendar year 2014.

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

1 industrial customers (Group 2). Included in the ES rate effective April 16, 2012 are the  
2 costs associated with the wet flue gas desulphurization system (Scrubber) installed at  
3 PSNH's Merrimack Station, which are being separately reviewed in Docket DE 11-250.  
4 The temporary Scrubber rate of 0.98 cents per kWh as ordered in DE 11-250, Order No.  
5 25,346, remains unchanged.

**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
January 2011 – June 2011	8.67
July 2011 – December 2011	8.89
January 2012 – April 15, 2012	8.31
April 16, 2012– June 2012	(c) 8.75
July 2012 – December 2012	(c) 7.11
January 2013 – June 2013	(c) 9.54
July 2013 – December 2013	(c) 8.62

- (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).
- (c) These rates include 0.98 cents per kWh for Merrimack  
Scrubber costs.

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. This interim  
10 process has been used in recent years. Beginning in 2007, the ES rate year was  
11 adjusted to coincide with the calendar year January – December. In 2013, the current  
12 ES rate was adjusted effective July 1, 2013.

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 based on contracts  
18 with IPPs. PSNH will formally propose an ES rate, and provide a rate calculation based  
19 on updated market information, prior to the anticipated hearing in December 2013.

20 **Q. Will the updated filing use the same calculation methodologies as in previous**  
21 **proceedings?**

22 A. Yes.

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 **2014 through December 31, 2014?**

4 A. Yes. As shown on Attachment EHC-1, for the period from January 1, 2014 through  
5 December 31, 2014, PSNH's preliminary calculation of a projected ES rate prior to the  
6 inclusion of the cost of the Scrubber is 7.98 cents per kWh.

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

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

13 Historically, through January 31, 2006, all ES reconciliation amounts (over or under  
14 recoveries) were applied against Part 3 stranded costs. With the elimination of Part 3 of  
15 the SCRC in June 2006, all ES reconciliation amounts effective with ES recovery  
16 beginning February 1, 2006 were no longer applied to Part 3 stranded costs. ES  
17 reconciliation amounts beginning in February 2006 are now being deferred and are  
18 applied to future ES rate recoveries per the Commission's order and findings in Docket  
19 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. These categories are the revenue  
4 requirements for owned generation assets and the costs of purchased power  
5 obligations. These costs include the fuel costs associated with PSNH's generation  
6 assets, the costs from supplemental energy and capacity purchases, certain ISO-NE  
7 ancillary service charges and the cost of compliance with the Renewable Portfolio  
8 Standard (RPS) and Regional Greenhouse Gas Initiative (RGGI). ES costs also include  
9 non-fuel operation and maintenance costs (O&M), depreciation, property taxes and  
10 payroll taxes, uncollectible costs attributable to ES, and a return on the net generation  
11 investment. All of these costs exclude any impact of the Merrimack Scrubber costs,  
12 which are subject to review in Docket DE 11-250.

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

14 A. The level of migration assumed in PSNH's filing is 52.0%, which represents the actual  
15 current migration level on PSNH's system as of August 31, 2013. Therefore, PSNH's  
16 calculations have not presumed that customers will migrate more or less than what is  
17 now actually known.

18 **Q. How is PSNH's mandated purchased power obligations with IPPs valued in**  
19 **calculating the ES rate?**

20 A. PSNH includes IPP generation as a source of power to meet PSNH's load requirements,  
21 and that power is valued based on projected market costs (energy and capacity). The  
22 over-market portion of purchases from the IPPs are treated as a stranded cost and  
23 recovered through Part 2 of the Stranded Cost Recovery Charge. This treatment is

1 consistent with the Restructuring Settlement and the Commission's Order in Docket DE  
2 02-166. As market prices drop, the value of IPP purchases recovered through the ES  
3 rate drops. However, at the same time, there is a corresponding increase to the SCRC  
4 rate for the above-market value of IPP purchases. To properly match the recovery of  
5 IPP costs, PSNH is filing contemporaneously for a change in the SCRC rate effective  
6 January 1, 2014.

7 In addition, PSNH has reflected the costs associated with the five new Wood IPP  
8 contracts per Order No. 25,305 in Docket DE 11-184. The detail for these five contracts  
9 for 2013 and 2014 is shown on pages 7 of both EHC-2 and EHC-4, which contain both  
10 the "at-market" and "over-market" costs. The over-market costs of the five Wood IPPs  
11 are reflected in the SCRC rate.

12 **Q. Please describe briefly the Winter Reliability Program ISO-NE has put in place for**  
13 **the winter 2013-2014 period.**

14 A. Due to the region's experience during the winter of 2012-2013 with constrained natural  
15 gas supply ISO-NE developed its Winter 2013-2014 Reliability Program, Appendix K of  
16 Market Rule 1. The program consists of four components; demand response, oil  
17 inventory service, incentives for dual fuel units, and market monitoring changes. As  
18 stated in ISO-NE's filing to FERC on June 28, 2013, these components are time-limited,  
19 discrete, out-of-market solutions. The program targeted the equivalent of up to 2.4  
20 million MWh of energy in oil inventory and demand response over the term December 1,  
21 2013 to February 28, 2014.

1 **Q. What is the current status of the Program?**

2 A. The bidding process is completed, ISO-NE has completed its evaluation, notified  
3 participants of the results/awards, and filed with FERC for approval of those awards.  
4 FERC approval of the awards is still pending as of September 25, 2013. FERC has  
5 approved the program itself with one modification from that proposed by ISO-NE. The  
6 modification was to allocate costs of the program to energy load rather than transmission  
7 load, based on cost causation principles. This condition is per FERC's order dated  
8 September 16, 2013.

9 **Q. Is PSNH a participant in the Program?**

10 A. Yes. PSNH submitted multiple bid blocks to provide oil inventory for oil-fired generation  
11 from its dual fuel unit at Newington Station.

12 **Q. Are results of the bidding process known?**

13 A. Yes. ISO-NE has proposed awards of the equivalent of approximately 1.995 million  
14 MWh at a price of \$78.8 million, for the three month period. The cost allocation to ES  
15 customers is estimated to be approximately \$2.4 million. Cost allocation to PSNH would  
16 have occurred regardless of PSNH's participation in the program. PSNH was awarded  
17 approximately 100,000 MWh (215,000 barrels) of oil inventory service at Newington  
18 Station for a price of \$4.8 million, for the three month period. Although the program itself  
19 has been approved, ISO-NE's contract awards are still pending FERC approval.

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

21 A. Yes. If a rate adjustment is deemed necessary, PSNH (or any interested party) could  
22 file a petition in early June prior to the beginning of the second half of the Energy Service



1 Year requesting a change in the Default Energy Service for the remaining six months of  
2 the year. PSNH would submit actual and estimated data on a date specified by the  
3 Commission to allow the parties, Staff and Commission sufficient time to address the  
4 need for an interim adjustment during the 2014 Energy Service Year, if necessary.

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

6 A. Attachment EHC-2 provides detailed cost and revenue components relating to PSNH's  
7 obligation to serve all ES customers. Page 3 of the attachment provides further detail  
8 relating to the energy simulation for the period January 1, 2014 through December 31,  
9 2014. Page 4 provides further detail on the forecasted market value of IPP generation.  
10 Page 5 provides a breakdown of Fossil/Hydro Operation and Maintenance costs and  
11 page 6 provides a detailed calculation of the return on Fossil/Hydro investment. Page 7  
12 provides the detailed breakdown of the Wood IPP purchases. Attachments EHC-3 and  
13 EHC-4 provide the detailed actual and forecasted cost and revenue components relating  
14 to the reconciliation of 2013.

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

16 A. Yes, PSNH needs final approval of the proposed ES rate by December 26, 2013, in  
17 order to implement the new rate for service rendered on and after January 1, 2014.  
18 Therefore, PSNH requests that the Commission commence a proceeding so that the  
19 procedural schedule can be set to review this filing and approve the ES rate in a timely  
20 manner.

1 **Q. Are there any other filing requirements at this time.**

2 A. Yes. In order 25,535 the Commission requested PSNH update generation costs in its  
3 report titled "Review of Costs -PSNH Generation for the New Hampshire Public Utilities  
4 Commission" submitted December 12, 2012. The updates include not only 2012 actual  
5 costs, but also 2014 budgeted costs. Consistent with discussions during the December  
6 18, 2012 hearing, additional clarifications and information have also been provided. The  
7 report is included in the filing as attachment PSNH Gen-1.

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

9 A. Yes, it does.