THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

PREPARED TESTIMONY OF JAMES R. SHUCKEROW, FREDERICK B. WHITE AND CHRISTOPHER J. GOULDING

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY

PETITION FOR APPROVAL OF ENERGY SERVICE SUPPLY PROPOSAL

Docket No. DE 17-XXX

I. INTRODUCTION

Q. Could you please state your names, positions and business addresses?

A. My name is James R. Shuckerow. I am the Director, Electric Supply for Eversource Energy Service Company. My business address is 107 Selden Street, Berlin, Connecticut.

My name is Frederick B. White. My business address is 107 Selden St, Berlin, Connecticut. I am a Supervisor in the Electric Supply department of Eversource Energy.

My name is Christopher J. Goulding. My business address is 780 North Commercial Street, Manchester, NH. I am employed by Eversource Energy as the Manager of New Hampshire Revenue Requirements.

In our positions, we each provide services to Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource" or the "Company").

Q. Mr. Shuckerow, could you please provide a brief summary of your background and responsibilities as Director, Electric Supply?

A. I received a B.S. in Mechanical Engineering from Purdue University and an MBA from University of Connecticut. I joined Northeast Utilities, now Eversource Energy, in 1979. In my present position as Director, Electric Supply, my responsibilities include procurement of wholesale power supply contracts for Eversource Energy customers in Connecticut and Massachusetts who have not selected retail power supply, contracting for renewable power, and dispatch and scheduling of Eversource's generation resources.

Q. Mr. White, please describe your responsibilities at Eversource Energy.

A. I primarily supervise and provide analytical support required to fulfill the power supply requirement obligations of Eversource. This includes the development of ES rates, evaluation of the need to supplement Eversource's resources for the provision of ES, and acquisition of Financial Transmission Rights to manage congestion. I am also responsible for on-going activities associated with independent power producers and certain power purchase agreements.

Q. Mr. Goulding, could you please describe your current responsibilities?

A. I am currently responsible for the coordination and implementation of revenue requirements calculations for Eversource, as well as the filings associated with Eversource's Energy Service ("ES") rate, Stranded Cost Recovery Charge ("SCRC"),

Transmission Cost Adjustment Mechanism ("TCAM"), and Alternate Default Energy ("ADE") rate.

Q. Have you ever testified before the New Hampshire Public Utilities Commission (the "Commission") or any other regulatory agency?

A. Yes, we each have testified before numerous regulatory bodies, including the Commission.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to explain Eversource's proposal for procurement and supply of ES to customers as part of the Company's agreement to divest its generating assets. In making this proposal Eversource is guided by the goals expressed in RSA 374-F:3, V (c), (d), and (e), as well as the commitments made in the 2015 PSNH Restructuring and Rate Stabilization Agreement (the "2015 Agreement"). In this testimony, we will explain: 1) Eversource's current practice for supplying ES to customers; 2) the proposed practice for procuring ES for Eversource's customers; 3) the proposed method for setting ES customer rates; 4) the proposed method for reconciliation of any over or under collections; and 5) the tariff amendments needed to implement the proposed changes. Eversource consulted with the Commission Staff and the Office of Consumer Advocate ("OCA") in preparing this proposal (though the Staff and OCA may not agree with each aspect of this proposal). With Commission approval, Eversource

would intend to issue RFPs in connection with the new ES procurement later in 2017, and have new ES rates based upon these market solicitations effective on January 1, 2018.

Q. What approvals is Eversource seeking from the Commission?

A. As explained below and in the petition accompanying this testimony, Eversource is seeking approval of its proposed process for competitive procurement, provision, and reconciliation of ES to allow for the process to be implemented in time for new ES rates to be effective on January 1, 2018. Additionally, Eversource is seeking approval of the proposed generic schedule for conducting the ES procurement.

II. CURRENT ENERGY SERVICE PROCESS

Q. Please explain how the Company currently provides ES to customers.

A. Currently, Eversource provides ES from its generation assets and, if necessary, through supplemental power purchases in a manner approved by the Commission. Further, by law the price of Eversource's ES is its actual, prudent, and reasonable costs of providing power, as approved by the Commission. Consistent with the requirements of RSA chapters 369-B and 374-F, Eversource has implemented two ES rates for customers, Rate DE and Rate ADE. We will explain both.

For Rate DE, Eversource has long employed a Commission-approved method for developing the rate where the rate is set on January 1 of each year for the calendar year.

That rate is a flat, fixed rate for the year, but it is generally adjusted on July 1 of each year as necessary to minimize over or under recoveries throughout the year.

While some of the specifics of the calculations have varied over the years, in general, Rate DE is calculated by reviewing Eversource's projection of costs of providing power from its generating assets as well as its costs for supplemental power purchases over the annual service period. In the past, Eversource had used long term procurements for its supplemental power purchases. More recently, however, Eversource's supplemental power purchases are only short-duration, typically a month or less.[1] Additionally, the supplemental power includes the energy and capacity that Eversource currently purchases under existing power purchase agreements ("PPAs") approved by the Commission in Docket Nos. DE 10-195 and DE 08-077.

The projected costs for supplying full requirements, load following service are applied to a forecast of ES sales to develop the rate to be charged. For many years, the sales forecast was simply based on the continuation of the then-current level of customer migration. More recently, it is based on an econometric model approved by the Commission.[2] Using this information, Eversource makes a filing of its projected January 1 rate in or around September of each year, and refines that projected rate in an updated

[1] The May 1, 2017 testimony of Frederick B. White on behalf of Eversource in Docket No. DE 17-075 at pages 2-4 describes in additional detail how Eversource supplied energy through its own generation and through supplemental purchases in 2016.
[2] See the September 30, 2016 testimony of Daniel J. Ludwig on behalf of Eversource in Docket No. DE 16-822 for an explanation of the model.

filing in December. Following a hearing on the updated filing, the Commission approves a rate to take effect on January 1. A similar process is repeated for a mid-year rate change that takes effect on July 1 of each year.

Rate ADE is different. Rate ADE was conditionally approved as a pilot program in 2012, and amended beginning January 1, 2015.[3] As currently constituted, Rate ADE is available only to customers in Eversource's largest delivery service classes, Rates GV, LG, and Backup Service Rate B. Following the amendments to Rate ADE on January 1, 2015, if a customer in one of these rate classes left ES for another source of supply and later returned to ES, that customer would receive service under Rate ADE, unless the customer made an affirmative commitment to remain on Rate DE for 12 months. With respect to the charge, Rate ADE is a monthly-varying rate that is based on a forecast of the marginal cost to provide full requirements service to the New Hampshire load zone.

In Order No. 25,911 in Docket No. DE 11-216, the Commission approved the extension of the Rate ADE pilot "for either 12 months from July 1, 2016, or if divestiture is ordered, until such time as Eversource has transitioned to a competitive solicitation for its energy service needs, consistent with the 2015 Restructuring and Rate Stabilization Agreement (2015 Agreement)." As discussed later in this filing, Eversource is requesting termination of Rate ADE at the end of November in order to prepare for billing and reporting changes proposed for effect on January 1.

[3] See generally Docket No. DE 11-216.

Q. How does the Company reconcile over and under collections in its ES rate offerings?

A. As approved, Rate ADE is reconciled through the Rate DE reconciliation. Accordingly, there is only one reconciliation applicable to both. Under the existing system, on or around May 1 of each year, Eversource makes a filing covering the prior calendar year. Eversource sets out the actual costs incurred and revenues collected in the prior year as compared to the forecast. Broadly speaking, the Commission reviews the difference between the actual costs and the actual revenues to determine whether there was an over or under collection in that year that should be applied to the ES rates in the coming year to reconcile the difference.

There is one special item that bears noting. Part of Eversource's costs of providing power come from purchasing electricity from certain small independent power producers ("IPPs"). Those purchases are primarily made at specified prices, rather than at variable prices reflecting the current markets. As a result, there are times where the price paid by Eversource to an IPP is above-market. To the extent there are any above-market costs attributable to the IPPs, the above-market costs are reconciled through Eversource's Stranded Cost Recovery Charge ("SCRC") rate, while the costs that are at or below market are reconciled through ES rates.

III. PROPOSED ENERGY SERVICE PROCUREMENT

Q. Why is Eversource proposing to change how it procures ES for its customers?

A. As stated earlier, Eversource provides ES through its own generation and supplemental power purchases. On June 10, 2015, and following extensive negotiations, Eversource and numerous other parties filed the 2015 Agreement, a comprehensive settlement relating to a variety of issues including Eversource's divestiture of its existing electric generating fleet. There is no need for extensive discussion of the 2015 Agreement, except to note that it both guides Eversource's divestiture of its generating assets, and describes the new process for Eversource to provide ES following divestiture. Specifically, the 2015 Agreement states at lines 294-302:

> Default Service will provide a safety net and assure universal access for customers who do not receive energy from a Competitive Supplier. Default Service shall be acquired and provided in accordance with RSA Chapter 369-B until divestiture of PSNH's generating assets. No later than six months after the final financial closing resulting from the divestiture of PSNH's generating assets, PSNH will transition to a competitive procurement process for default service. The competitive process utilized shall be consistent with the process determined by the Commission in its Docket No. IR 14-338, "Review of Default Service Procurement Processes for Electric Distribution Utilities," as may subsequently be modified by the Commission.

Accordingly, pursuant to the 2015 Agreement, which was approved by the Commission along with a related litigation settlement in Order No. 25,920 (July 1, 2016), Eversource is to transition to a competitive procurement process for providing ES no later than six months following divestiture. In that the divestiture process is on-going (*see* Docket No. DM 17-029), Eversource must prepare for the transition to competitive procurement envisioned under the 2015 Agreement.

Per the divestiture schedule set forth by J.P. Morgan, the auction advisor, as approved by the Commission, final bids for the purchase of PSNH's generation assets were to be due in mid-May of this year. Due to delays caused by litigation, final bids are now expected on or about August 1, 2017. As of the date of this filing, Eversource expects the closing on the divestiture could occur in late 2017 or in early 2018, depending upon how long necessary regulatory approval processes take. In light of this divestiture schedule, rather than await the closing on the assets and the uncertainty and reliance on spot market purchases that would prevail if nothing was done, Eversource is requesting approval of a method for procuring, supplying, and reconciling its ES rates so that it may implement an ES product procured using the new competitive procurement effective on January 1, 2018, which aligns with the date for Eversource's historic rate changes. Later, we will describe how any reconciliation between the actual closing and the implementation of the new procurement method would be handled.

Q. The Agreement says that Eversource would implement a process similar to that set out by the Commission in Docket No. IR 14-338. Has the Commission provided a process for Eversource to follow?

A. No. In that docket the Commission was investigating the various methods employed by the different utilities in New Hampshire to procure energy service for their customers. While numerous parties, including Eversource, offered comments and proposals, the docket did not actually produce a particular process or method to follow. Therefore,

Eversource has developed a proposal based upon the input of the Staff and OCA, the extensive experiences of its affiliated companies in Massachusetts and Connecticut, as well as on the experiences and practices of other utilities in New Hampshire.

Q. Please explain Eversource's proposal for ES supply.

A. To start out, Eversource proposes, similar to most other utilities, to have different rates for different classes of customers. Under Eversource's proposal, there would be a small customer class consisting of customers in the following delivery service classes: Residential Rates R and R-OTOD; General Service Rates G and G-OTOD; private area lights associated with these residential and small general service accounts and billed under Outdoor Lighting Rate OL; and municipal lighting on Outdoor Lighting Rates OL and EOL. For these customers, Eversource is proposing to provide ES on a six month basis. That is, the ES rate applicable to these customers would be a flat rate that is reset every six months, just as Rate DE is set today.

Additionally, Eversource would have a large customer class consisting of delivery service customers in the following classes: Primary General Service Rate GV, Large General Service Rate LG, Backup Service Rate B, and any private area lighting associated with these accounts and billed under Outdoor Lighting Rate OL. For these customers, Eversource proposes that they have an ES rate that varies monthly.

Q. Why have different classes with different rate structures?

A. In Eversource's experience, smaller customers tend to value rate stability and a longer term is appropriate. Eversource's energy supply group has been procuring ES through competitive solicitations in Massachusetts and Connecticut for many years and through that experience has found that residential and small commercial customers who take ES generally expect, and prefer, a smoother and more stable rate. Also, the vast majority of customers who take ES tend to be residential customers who often have less knowledge about and ability to manage variable power supply prices. A stable and predictable rate makes the most sense for these customers.

Further, a new rate structure with adjustments every six months will mirror the existing rate changes and should help avoid customer confusion. It will also assist those customers in understanding how the new rates compare to the prior rates. Additionally, because competitive suppliers in New Hampshire are accustomed to utility energy service rates changing semi-annually, keeping that rate structure will help avoid disruption to the competitive supply market.

For the larger customers, many of them are more sophisticated purchasers of their power supply and have greater capacity to understand the options in the marketplace and to make their decisions based on changes in market conditions. Therefore, a shorter term is both understandable and more appropriate.

Further, having a shorter term will also help avoid "gaming" behavior. For these larger customers, when there is an average retail price for a period longer than one month, customers have incentives to migrate from ES during off-peak months to take advantage of lower seasonal prices and subsequently return to ES during on peak months to avoid higher seasonal prices. This activity is often referred to as "gaming", and it ultimately harms customers since, absent adequate protections, wholesale suppliers will factor costs associated with gaming into their bids. Having a shorter term rate will help avoid this gaming and the distorted pricing signals it can send.

Q. How would Eversource purchase the full requirements, load following service and renewable portfolio standard ("RPS") requirements associated with ES?

A. Consistent with the manner employed by Eversource's affiliated companies, as well as other New Hampshire utilities, Eversource would issue requests for proposals ("RFPs") for full requirements, load following service to the market on regular intervals. What that means is that Eversource would be seeking suppliers who are willing and able to supply all the energy, capacity, ancillary services, and other attributes of all requirements service for a particular class, or a portion of that class, and would be willing to take on the risk of any changes in customer behavior. Those risks include greater or lesser energy use due to weather, energy efficiency or other events, as well as the risks of customers migrating to or from ES. Suppliers would also take on market risks caused by changes in things

like plant operations, or fuel costs. Given the maturity of the market, suppliers are well acquainted with managing those kinds of risks.

The RFP would be updated if, and as, necessary to fit the requirements of a particular solicitation. From time to time, it may be necessary or advisable for the Company to make changes to the form and requirements of the RFP to address issues such as changes in market rules, market developments that occur over time, or to incorporate best practices learned over time.

With regard to RPS compliance obligations, Eversource would manage its RPS needs outside of the ES RFP process. Eversource would establish the "RPS" rate based on publicly available, current market price information (daily broker quotation sheets) and Renewable Energy Certificates ("REC" class percentage requirements as of the time the rate setting filing is being prepared. Fulfillment of required quantities would be accomplished through the issuance of RFPs or purchases either directly from producers or through the bilateral market, in the same manner as how it is accomplished today for current ES customers. If the Commission approves this process of separate management of RPS obligations, the Company understands that the process as described above would be "pre-approved," and the recovery of resulting costs will not be subject to further prudence review.

Regarding fulfillment of Class I REC requirements Eversource will continue to purchase Class I RECs from the Burgess BioPower and Lempster Wind facilities under existing PPAs. Under the 2015 Agreement (at lines 568-69), "RECs from such PPAs will be managed prudently to benefit customers." The REC amounts purchased from these sources may more than meet energy service obligation quantities, eliminating the need for Class I purchases. Since the 2015 Agreement calls for the costs of those PPAs to be recovered via the SCRC, a transfer price for RECs obtained under those PPAs used to satisfy RPS needs for ES customers must be set. In order to properly account for these Class 1 REC purchases for both ES and SCRC purposes, Eversource proposes to establish a transfer price equal to the Class I REC prices established via the mechanism described previously.

Q. How would Eversource select the winning bids for full requirements, load following service?

A. Following the responses to a full requirements, load following service RFP, Eversource would evaluate the proposals with the objective of obtaining the best price for customers. Bids will be evaluated by taking monthly prices times monthly forecasted loads, summed over the procurement period. The resulting values will be ordered low cost to high cost, and the lowest cost bids accepted up to the quantity needed. The Company would also evaluate other factors when reviewing the responses such as consistency with the RFP requirements, the nature of the service offered, and the qualifications of the counterparty. The Company would execute a transaction confirmation with the selected party or parties

subject to the Commission's approval of the bids and the resulting rates. Eversource's employees have substantial experience conducting RFPs for ES and in evaluating the bids received, and Eversource is confident that it will do so appropriately and successfully in New Hampshire as well.

Q. Would Eversource need approval of the contract(s) and the rates in a particular time?

A. Yes. The longer that a supplier has to hold a bid open while it waits for the utility and/or the Commission to act, the more of a risk premium the supplier will build into its bid. The possibility of an extended delay in obtaining regulatory approval raises the possibility that a supplier may elect not to bid at all. The electric markets are dynamic and both the loads and the prices are in constant flux. To minimize the risk premium that suppliers may add to their bids, Eversource would need to assure suppliers there is a timely and efficient process at the Commission that would result in the contract(s) and rates being approved very soon after bids are received. Having reviewed the schedules used by other New Hampshire utilities, Eversource proposes that the Commission issue its decision within five business days of the Eversource filing.

Q. Is there a specific schedule that would be useful?

A. While Eversource does not have specific dates to propose, the following generic schedule is one that Eversource believes would make sense for the procurement of supply.

Supply Period	January – June	July – December
RFP Issued	Mid-September	Mid-March
Bids Due	Mid-November	Mid-May
Commitments Made	Mid-November	Mid-May
Rates Filed for Commission Approval	Late November	Late May
Commission Approval	By December 1	By June 1

Q. You stated that the supplier would be supplying energy for a class or a portion of a class. Could you explain that?

A. Yes. The amount of load served by Eversource in New Hampshire is far larger than the load served by other utilities in New Hampshire. Given the size of some suppliers, some may be unable or unwilling to supply the entire ES needs for Eversource's small customer class. Therefore, Eversource is proposing that it may be appropriate to divide up the solicitations and permit suppliers to bid on portions, or tranches, of the supply. Eversource believes it is appropriate to divide the load into approximately 100 MW tranches.

The result could be that multiple suppliers would supply the total load required by the small customer class and the revenues and costs would be apportioned among those suppliers in relation to the total amount of load they serve within the class. Eversource believes that permitting multiple suppliers to bid to serve portions of any given class will ensure that more suppliers are able to bid, thus increasing the competitiveness of the bidding process, and, presumably, lowering the resulting rates.

Q. How does Eversource intend to acquire energy for its larger customer class?

A. As the volume of large customer class load comports with the 100 MW criteria the company will not divide that load into tranches. Eversource is proposing for large customers 6 month contracting terms from semi-annual procurements. Thus, every six months, Eversource would contract with one supplier for 100 percent of large class loads. Eversource believes this method of contracting, with monthly varying rates, is consistent with approaches utilized throughout the region for large customers.

Q. Could you please explain further what will be done with respect to the small customer class?

A. For the small customer group, Eversource is proposing that it will use a "laddering" approach to contracting. Except for the initial transition period, Eversource proposes to procure service for 50 percent of the load for a one year period every six months. For example, in March 2018 Eversource would solicit bids for 50 percent of the small

customer load for the period of July 2018 through June 2019 and in September 2018 it would solicit bids for 50 percent of the small customer load for the period January 2019 through December 2019. The result, in this example, would be that for January through July of 2019, customers would pay a rate that is a blend of those procurements. At the time of the semi-annual rate filing, Eversource would include the results of the most recent procurement along with the results of the prior procurement to arrive at the blended rate that would be proposed to be charged to customers.

Q. You stated that there would be an exception for the initial transition. Could you explain?

A. Presently, Eversource does not have contracts in place to support ES supply in this manner. Accordingly, to establish the laddering approach it would be necessary to have an initial procurement of 100 percent of the load for a six-month period, and then subsequent procurements would be for 50 percent of the load. Therefore, in late 2017 Eversource would simultaneously contract for 100 percent of the load for January through June 2018, and 50 percent of the load for July through December 2018. Once that is initially established, Eversource would be able to contract for 50 percent of the load on a rolling basis as previously described.

Q. Why is laddering appropriate for smaller customers?

A. The intent of laddering would be two-fold. First, and as noted previously, customers in the smaller classes both prefer and expect relatively stable and predictable rates. Having

a laddered approach to procurement will mean that any rate changes will be smoother than they otherwise would be.

Second, and related, laddered procurements that result in a blended rate will not only keep the rate smoother from one period to another, they will help mute the volatility that might otherwise be created should the entire load be procured at a single point in time. In other words, customers would not only see more stable rates overall, but would also have less significant shifts between rate periods.

Q. What could the impacts of this blended procurement approach have on ES rates?

A. The most volatile component of the overall ES rate is the energy component. The capacity and ancillary service components are more predictable. When energy prices are changing little from one year to the next, little change in the ES rates would be seen whether you purchase 8 months in advance or 2 months in advance of a respective rate period.

However, during time periods in which the energy price component could be impacted by extreme cold winter weather forecasts, if 100 percent of the ES was purchased in November, for example, there is a risk that the ES price for January-June could dramatically increase from the July-December price.

From Eversource's experience obtaining similar service in Connecticut and Massachusetts, the Company suggests that the 50/50 laddering approach will provide the likelihood of some reduced level of ES price volatility during times when energy price volatility occurs. As such, for the expected core group of residential and small C&I customers that would remain with Eversource as their generation service provider, they will experience a dampening of the potential spikes in their ES rates. In addition, based on our experience with customer satisfaction surveys, the feedback we have received is that customers prefer less volatility in their energy service rate, thus these customers' desires will be met.

Q. You have indicated that the recommendations on procuring future ES reflect your experiences associated with Eversource's operating company affiliates in Connecticut and Massachusetts. Could you provide your insights?

A. Yes, Eversource's affiliates have been providing generation service (equivalent to ES in New Hampshire) procurement in Connecticut and Massachusetts since the year 2000 for residential and small C&I customers. The generation service that is provided in those states is similar to what is being proposed for New Hampshire. Listed below are counts of the number of residential and small C&I customers receiving generation service from either Eversource or its affiliate, or from competitive supply, in Connecticut, Eastern Massachusetts ("EMA"), Western Massachusetts ("WMA") and New Hampshire as of Spring, 2017.

	CUSTOMERS			
	CT			
	Residential		Small C&I	
	Number	%	Number	%
Eversource	804,000	72	62,000	51
Competitive	312,000	28	60,000	49
TOTAL	**1,116,000**	**100**	**122,000**	**100**
	EMA			
	Residential		Small C&I	
	Number	%	Number	%
Eversource	622,000	60	86,000	51
Competitive	408,000	40	84,000	49
TOTAL	**1,030,000**	**100**	**170,000**	**100**
	WMA			
	Residential		Small C&I	
	Number	%	Number	%
Eversource	140,000	75	12,000	57
Competitive	47,000	25	9,000	43
TOTAL	**187,000**	**100**	**21,000**	**100**
	EVERSOURCE NH			
	Residential		Small C&I	
	Number	%	Number	%
Eversource	333,000	77	48,000	64
Competitive	102,000	23	27,000	36
TOTAL	**435,000**	**100**	**75,000**	**100**

Q. What observations do you make from this information?

A. At this point, each of Eversource's operating companies have similar experiences regarding choices made by customers who switch to retail supply or remain with the

utility. Between the four operating companies, on average, about 70 percent of residential customers remain with the utility for their generation service. For small commercial and industrial customers, on average, about 55 percent of these customers remain with the utility for their generation service.

Recognizing that retail choice for generation service has been ongoing for many years, Eversource has good reason to expect that in New Hampshire a very large number of its customers will continue to receive their generation service from Eversource following the implementation of competitive procurement. This is the core group of residential and small C&I customers referenced previously. Because there is a core group of customers that are unlikely to migrate to competitive supply, Eversource believes it very important to ensure that these customers receive an ES product that meets their needs and expectations around pricing and volatility.

Q. Is it possible that laddering could actually "lock in" high prices and harm customers?

A. It could, but Eversource's proposal tempers that concern. Some years ago, we understand that Unitil had used a laddered approach that locked in high prices during periods when prices had come down and resulted in customers overpaying for their power. That happened, at least in part, because Unitil had supply contracts that extended multiple years into the future.

Eversource's proposal for New Hampshire customers strikes a balance between the unfavorable circumstances of multi-year contracts and complete exposure to market volatility. As noted, Eversource would procure 50 percent of the residential and small C&I requirements about 8 months ahead of rate period (Jan-June or July-Dec) and the other 50 percent about 2 months ahead of the respective rate period. The timing of these procurements means that small ES customers would see rates that somewhat lag the market, but that would not be fixed for an unreasonably long time. Eversource would still be offering a market-based rate, but it would be one that is more stable, predictable, and understandable to small customers.

Q. Is laddering a viable alternative for large customers?

A. The Company does not believe it is. The smoothing of rates is somewhat inconsistent with monthly rates and can lead to a greater variation in prices and rates. As discussed above, given the sophistication and energy buying experience of many large customers, and with regard to "gaming" behavior, a shorter and more current rate term is both understandable and more appropriate. Also, given the regular contracting for the entire load, there would be no need for special treatment for the initial solicitation as is the case with the small customer class.

Q. You described one consideration that needed to be addressed for the initial transition period, are there others?

A. Yes. To ensure that there will be market interest in supplying the load, Eversource will provide potential bidders with information such as historic hourly load data, and evaluation loads which Eversource will use to weight bids in terms of price. To ensure that suppliers will have the appropriate information to understand the load they would be bidding to serve, Eversource is collecting and preparing to disseminate this data now. Going forward, potential bidders will have access to this information.

Q. Are there any others?

A. Yes. Internally, Eversource must prepare various systems to accommodate reporting and billing of the new ES. Currently, Eversource has two load asset identifications ("asset IDs") at ISO-NE which are used for load settlement purposes, one for Rate DE and one for Rate ADE. To minimize administrative and billing changes, in the new set up the Company will continue to use these two existing assets IDs, redefining them so that one will apply to the small customer group and one to the large customer group. This will ensure that the costs and revenues for those classes are segregated and may be billed and tracked appropriately for the suppliers who will be providing the service.

To report all large customers on the same asset ID beginning in January, the Company must move approximately 200 large customers who are currently on Rate DE and the Rate DE asset ID to the other asset ID prior to January 1. The Company is proposing to

move these customers following each customer's December meter reading. Once all large energy service customers (the former DE customers as well as the ADE customers) are on the same asset ID, the Company proposes to bill their December usage at the DE rate in effect in December, and Rate ADE will terminate. Beginning on January 1, this group of customers will be served under the new ES rate for large customers.

An additional change for these customers is that the existing Rate DE is only adjusted every six months, while the new rate structure will have a monthly varying rate for ES. Eversource has already begun communicating with those customers about this potential change and will be continuing those communications throughout the transition. In addition to the communications through bill messages, bill inserts, and website information about the transition that would be delivered to all customers, for these customers Eversource will have additional outreach, including face-to-face meetings and webinars or seminars to discuss the changes, along with other direct contacts. Eversource will also engage with business and community leaders to ensure that customers understand the changes and their options.

IV. PROPOSED ENERGY SERVICE RATE SETTING AND RECONCILIATION

Q. Presuming that the Commission approves the contracting method Eversource is proposing, how would the contract amounts actually show up in customer rates?

A. Customer rates would include the winning suppliers' bids for energy, capacity, ancillary services, and other components of all requirements service, plus the RPS rate established

as discussed above in section III, along with Eversource's internal overhead, working capital and uncollectible expense costs, and a reconciling adjustment we will explain later. The suite of costs included in the actual rate will be essentially the same as for other New Hampshire utilities.

As discussed above, Eversource presently includes the costs associated with various PPAs and a portion of the costs relating to IPPs in its ES rates. Under the 2015 Agreement, however, that will change and ongoing IPP costs, PPA costs, and all other Non-Securitized Stranded Costs as determined by the Commission will no longer be in the ES, but will be recovered through the SCRC. This will help ensure that the ES rates will reflect actual market costs and thereby send more accurate price signals to customers.

Q. Are there any other items that will change in how customer rates are set?

A. Yes. As discussed above, under the PPAs that Eversource has, Eversource not only purchases energy and capacity, but also Class I RECs. As noted earlier, consistent with the 2015 Agreement, some of these RECs will be used to comply with its energy service Class I RPS obligation. Effectively, the ES rate will include a purchase price for these RECs from the PPAs at the transfer price established during ES rate setting. Any remaining surplus RECs will be sold into the market. Consistent with the 2015 Agreement, all costs of the PPAs will now be included in the SCRC. As described above, effective January 1, 2018, revenues based on the transfer price between ES and

the PPAs/SCRC, plus the revenues from the sale of any surplus Class I RECs from the PPAs will be credited to the SCRC consistent with the PPA costs themselves.

Q. Once set, how would customers' rates be reconciled?

A. Presently, reconciliations for Eversource are handled through an annual filing that involves a lengthy review of Eversource's decisions relating to the operations of its generating facilities, as well as those relating to its supplemental power purchases. Such a process would no longer be needed under the new system. Instead, at this time, Eversource would propose to follow a reconciliation method similar to that used by other New Hampshire utilities.

Under the proposed process, Eversource would track the over and under collections specific to each customer group, small and large, and would reconcile them separately. That would ensure that the costs and revenues attributable to each group are addressed through that group. Any rate adjustments necessary to accommodate the reconciliation would accompany the filing for the January 1 rate proposal and would take effect with the ES rate changes on January 1 of each year.

Based upon discussions with the Staff and OCA, Eversource is proposing at this time that over and under collections be reconciled through an adjustment to the relevant ES rate. Reconciling in this way will ensure that ES related costs are recovered in ES rates, consistent with the manner of reconciliations for other utilities. In the future, if over and

under collections are caused by "gaming" of the rate (described in Section 3 above), the company reserves the right to petition the Commission to change the reconciliation recovery from then current ES customers only to a non by-passable charge to be collected from all customers within the small and large customer groups.

Q. Is it likely that the closing on Eversource's divestiture would happen precisely on January 1, 2018 to line up with the proposed rate change?

A. No, it is virtually certain that divestiture will not occur on that day.

Q. Since Eversource is proposing to transition to a new ES system on January 1, but the closing on the divestiture of its generating assets will not occur that day, how would Eversource "bridge the gap" between those periods?

A. Eversource would take a different approach, depending on when the closing actually occurs. Should the closing occur prior to the January 1 transition to competitively supplied service, Eversource would serve ES customers out of its existing portfolio of IPPs and PPAs. To the extent such supplies are insufficient, Eversource would self-supply by making spot market purchases for the time between the closing and January 1. Then, on January 1, Eversource would transition to the new rate setting and handle the IPPs and PPAs as previously described. If the sale of the generation assets takes place prior to January 1, it would be only a short time that Eversource would be in a self-supply situation prior to the change on January 1.

In the event that the divestiture closing occurs after January 1, the transition to the competitively procured power supply would be effective on January 1 regardless to provide contract certainty to the new suppliers. For the length of time from January 1 to the closing date, Eversource would continue to operate its plants in a reasonable and prudent manner as required by the 2015 Agreement and as called upon by ISO-NE. The costs and revenues from such operations would flow through the SCRC, as would the costs relating to the IPPs and PPAs. This would ensure that the ES transition is "clean" on January 1, providing appropriate market price signals to customers.

Q. Could you describe what Tariff changes are needed?

A. Presently, Eversource's tariff describes and defines ES consistent with the relevant law and present methodologies. To recognize the changes that will be needed for January 1, Eversource has provided, as Attachment A, illustrative clean and redlined tariff pages showing the proposed changes.

Q. Does this conclude your testimony?

A. Yes, it does.