

DE 01-246

CONCORD ELECTRIC COMPANY AND  
EXETER & HAMPTON ELECTRIC COMPANY

Retail Fuel and Purchased Power Adjustments and  
Short-Term Power Purchase Rates for Qualifying Facilities

Order Approving Charges and Rates

O R D E R N O. 23,910

January 31, 2002

**APPEARANCES:** LeBoeuf, Lamb, Greene & McRae, LLP by Scott J. Mueller, Esq. for Concord Electric Company and Exeter & Hampton Electric Company; Office of Consumer Advocate by Kenneth Traum, and Edward N. Damon, Esq. for the Staff of the New Hampshire Public Utilities Commission.

**I. PROCEDURAL HISTORY**

On December 17, 2001, Unutil Service Corporation (USC) filed with the New Hampshire Public Utilities Commission (Commission) a set of proposed tariff changes, supporting testimony and exhibits on behalf of USC affiliates Concord Electric Company (CEC) and Exeter & Hampton Electric Company (E&H) (collectively, the Companies) to revise their retail fuel adjustment charges (FAC), purchased power adjustment charges (PPAC) and short-term power purchase rates for qualifying facilities. The proposed changes would apply to the nine-month period commencing on February 1, 2002 and ending on October 31, 2002.

In a related filing, docketed as DE 01-245, USC filed to cancel the tariff pages related to the Administrative

Service Charge (ASC) of CEC and E&H, effective February 1, 2002. The ASC was established to recover the administrative costs of the New Hampshire Retail Competition Pilot Program; however, CEC and E&H no longer have any customers participating in the program. The Companies proposed to roll over the actual ASC account balances as of January 31, 2002 into the purchased power account in order to charge or credit customers any remaining amount. The projected balances are small. The estimated balance for CEC is a negative amount, or in other words a credit, of \$458 (hereafter a negative number is denoted by parentheses), and the estimated balance for E&H is \$1,585. By secretarial letter, the Commission accepted the request to cancel the ASC and allowed the requested rollover into the Companies' PPAC.

In the instant docket CEC proposes a FAC of (\$0.00207) per kilowatt-hour (kWh) and a PPAC credit of (\$0.00370) per kWh for the nine month period. With the cancellation of the ASC, which is currently set at \$0.00003 per kilowatt hour, there will be a net decrease of (\$0.00822) per kWh from the current combined FAC, PPAC and ASC rate. E&H proposes a FAC of (\$0.00200) per kWh and a PPAC of (\$0.00155) per kWh for the nine month period. With the cancellation of the ASC, which is currently set at \$0.00004 per kWh, there

will be a net decrease of (\$0.00558) per kWh from the current combined FAC, PPAC and ASC rate for E&H. According to the petition, the proposal, if approved, would cause a typical residential customer of CEC using 500 kWh per month to see a decrease in his or her bill of \$4.11, or 7.69 percent, to a level of \$49.33. For E&H, the typical 500 kWh monthly residential customer would see a decrease of \$2.79, or 5.48 percent, to a level of \$48.14. The short-term power purchase rates for Qualifying Facilities (QFs) would also decrease with respect to both CEC and E&H. The proposed short-term power purchase rates are shown on nineteenth revised Page 47 for CEC and nineteenth revised page 48 for E&H.

The petition further notes that in Order No. 23,707 (May 17, 2001), the Commission ordered CEC and E&H to include in their FAC/PPAC filings a report of the results of the institution of their Load Response Program as approved in that Order, along with expense information and verification that only costs attributable to regulated utilities (i.e., CEC and E&H, as opposed to nonregulated affiliates of parent company Unutil Corporation) are included in the charges assessed under the Load Response Tariff. Accordingly, the petition reports that no eligible CEC or E&H customers have enrolled in the Load Response Program and, therefore, no costs are proposed

for recovery in connection with the instant filing.

The Commission issued an Order of Notice on January 8, 2002. The Commission held a merits hearing on the date specified in the Order of Notice, January 23, 2002.

By letter dated January 16, 2002, the Office of Consumer Advocate (OCA) notified the Commission that it would be participating in this docket on behalf of residential ratepayers consistent with RSA 363:28.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. Concord Electric Company and Exeter & Hampton Electric Company**

The Companies presented the testimony of Linda S. McNamara, project leader for regulatory operations with USC and Francis X. Wells, Senior Energy Trader with USC. David K. Foote, vice president of USC and president of UPC, and Mark H. Collin, vice president and treasurer of USC, and treasurer of UPC, CEC, and E&H, provided additional testimony at the hearing on redirect examination.

The purpose of Ms. McNamara's testimony was to explain the proposed rate changes and their impact on customers. She noted that the Companies are proposing a nine month implementation period for the requested FAC and PPAC, from February 2002 through October 2002, instead of a six month period as in the past. The change is requested in order

to coincide with the anticipated date for implementation of the Companies' restructuring proposal, November 1, 2002.

Ms. McNamara explained briefly how the new wholesale power rates charged to the Companies by UPC, effective January 1 through October 31, 2002, affect the PPAC and FAC. The wholesale demand and base energy charges are used to calculate the Companies' cost of purchased power. CEC's proposed increase to the PPAC, \$0.00460 per kWh, and E&H's proposed increase to the PPAC, \$0.00696 per kWh, are mainly due to higher demand and base energy charges from UPC and decreases in the prior period overcollection. The wholesale fuel charge is used to calculate the FAC of the Companies. The Companies' proposed decreases to their FACs, (\$.01279) per kWh in the case of CEC and \$.01250 per kWh in the case of E&H, are primarily due to lower fuel charges from UPC effective January 1, 2002.

In presenting UPC's production plan and associated cost estimates for the January 2002 through October 2002 period, Mr. Wells provided additional detail regarding the reasons for the proposed adjustments. Mr. Wells noted that UPC's current period demand charge, base energy charge and fuel charge rates to the Companies are \$19.09 per KW-Month, \$0.00552 per kWh, and \$0.02563 per kWh, respectively. Mr.

Wells said that these charges are made pursuant to the Unitil System Agreement and are recoverable under UPC's FERC approved tariff.

The demand charge is increasing as a result of the end of termination payments from PGET Energy Trading for the buyout of UPC's contract for 10 MW of Salem Harbor, an increase in administrative and general (A and G) costs which UPC expects to incur in connection with Unitil's restructuring activities and other labor and overhead costs, and an increase in the so-called unbilled prior cost component of the demand charge from (\$1.10) per kW to (\$.61) per kW. These increases are partially offset by a lower transmission charge. Similarly, the base energy charge is increasing primarily due to an increase in the A and G costs budgeted for the current period and an increase in the amount of unbilled prior costs. The fuel charge is expected to decrease primarily due to a moderation of fuel prices and an increase in the amount of unbilled prior costs.

Mr. Wells also described the resources available to UPC for satisfying the Companies' energy and capacity requirements, the methodology for estimating UPC's costs for the current period and UPC's short term avoided cost rates.

At the hearing he submitted several revisions to the exhibits attached to his testimony, which he said changed some transposed numbers in certain of the columns but did not affect the conclusions set forth in his testimony.

The Companies' responses on cross examination were supplemented by additional information provided on redirect examination.

According to the Companies, if restructuring is not accomplished within nine months, they will either file to extend or adjust the current FAC and PPAC rates after evaluating collections during the period or ask for approval of an open-ended rate. The Companies could make such a request by September 15, 2002. The Companies expect to roll any FAC and PPAC balances resulting from over or under collections into the stranded cost charge. The Companies do not expect the PPAC/FAC balances of CEC and E&H differ by much, but if they do, the restructuring plan to be presented to the commission will address the issue.

UPC's restructuring costs are included in the calculations of the FAC and PPAC rates during the upcoming nine month period because they are treated as ordinary operating expenses recoverable on a current basis under the Unitil System Agreement and UPC's FERC-approved tariff. UPC's estimated incremental restructuring costs total approximately \$950,000 for external legal and expert consultant services. By contrast, the Companies will propose that their own restructuring costs be deferred and collected through a



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separate surcharge.

Finally, the witnesses for the Companies confirmed that no costs for their educational efforts are included in the current filing.

With regard to Staff's positions, Ms. McNamara confirmed that the Companies' ASC balances were small and would have a tiny effect on the PPAC rate. Also, having only one rate change is less likely to confuse customers.

In addition, the Companies' witnesses testified that the terminated power contracts in question, namely those with Central Vermont Public Service Company (CVPS) for 25 megawatts of Vermont Yankee power, Hydro-Quebec for firm energy pursuant to the Phase II Interconnection Agreement, and Bangor Hydro System for 18.27 megawatts, all expired according to their terms rather than having been terminated by UPC. UPC is replacing the energy and capacity provided by those contracts through purchases in shorter term markets, including monthly, daily and hourly markets, the one exception being the capacity credit still being received by UPC for the amount of its Phase II entitlement in Hydro-Quebec.

UPC recognizes that the replacement power for the Hydro-Quebec and CVPS contracts may be higher than in the contracts, but consistent with Unitil's announcement to the Commission made in its revised 1996 integrated resource plan,

UPC is not renewing any long term power contracts in view of the expected restructuring of its business. With restructuring, certain stranded costs could become unrecoverable and UPC has chosen not to take the risk of incurring such costs by renewing or replacing long term power contracts which expire. In a restructured world, the customers' former obligation to buy power from the Companies becomes the customers' right to shop, which exposes the Companies to market risks in its view.

In their closing statement, the Companies argued that the Commission should reject the OCA's position on UPC's restructuring costs, described below in subsection B, and approve the FAC and PPAC rates as filed. The Companies said the cost inter-affiliate allocation methods have been approved by all of the agencies regulating the consolidated Unitil system, including the Securities and Exchange Commission. Moreover, the Companies note, restructuring costs included in the invoices issued by UPC to the Companies reflect projections for its on-going operating expenses which are approved under its Federal Energy Regulatory Commission (FERC) tariff. The Companies concluded by saying that if there were any questions about the costs they should be raised in the FERC proceedings.

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**B. Office of Consumer Advocate**

The OCA presented no witnesses. The OCA's cross-examination of the Companies' witnesses focused on what would happen with respect to the FAC and PPAC rates if restructuring were not completed within nine months as expected, the treatment of any variances between CEC and E&H in the over or under collection of FAC and PPAC balances at the time of a merger of CEC and E&H pursuant to restructuring, the reasons why UPC's restructuring charges are included in the FAC and PPAC, and how the Companies' costs for their educational efforts are to be recovered.

In its closing statement, OCA urged the Commission to allow the deferral of UPC's restructuring costs pending the completion of restructuring, consistent with the way the Commission recently handled an issue of restructuring costs involving Connecticut Valley Electric Company. OCA said that since restructuring activities are done pursuant to state law, it is fair for the question to be decided under the jurisdiction of the Commission.

**C. Staff**

Staff presented no witnesses and indicated in closing that it is generally supportive of the Companies' filing. Staff's cross-examination of the Companies' witnesses focused on, among other things, the rationale for rolling the ASC balances into the PPAC, the circumstances of the termination of certain power contracts entered into by UPC, UPC's options for renewal or replacement of the contracts and the effects of termination on the power costs ultimately paid by the Companies' customers.

**III. COMMISSION ANALYSIS**

We have reviewed the Companies' proposal for new fuel adjustment charges, purchased power charges and short term power purchase rates for QFs, find them to be consistent with the public interest, and therefore approve them subject to the deferral described below related to restructuring costs.

We note that the Companies have followed essentially the same methodology in this docket for calculating the FAC and PPAC as they have in previous dockets. We think the extension of the adjustment period from six to nine months and the roll-over of the ASC balances into the PPAC are reasonable under the circumstances present here.

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Our most recent Order involving the Companies' charges, Order No. 23,757 (July 31, 2001) in DE 01-130, discussed some of the same questions regarding energy prices and price volatility in a restructured industry which were the subject of testimony here. These questions, among others, will no doubt be subject to further consideration in connection with the Companies' proposals for transition and default service anticipated in its restructuring filing.

As in the past fuel and purchased power proceedings, we express no opinion here on the reasonableness of the Companies' decision to forego the opportunity to renegotiate longer-term contracts. The Companies acknowledge that the Commission has not approved the Companies' practice of winding down its portfolio of long-term resources. We will consider this and related issues in the restructuring dockets now before us. We note that the Companies have asked for expedited approval of their divestiture of longer-term supply contracts, which has been docketed as DE 01-247.

Consistent with our recent Orders in CVECs' FAC/PPAC and Temporary Billing Surcharge filings, see Order No. 23,885 and Order No. 23,887 (December 31, 2001), we will defer recovery of UPC's restructuring costs and will not include them in the calculation of CEC's and E&H's FAC and PPAC rates



at this time. From Mr. Wells' prefiled testimony, see page 3, we understand that such costs have been included in UPC's charges to CEC and E&H; from Ms McNamara's prefiled testimony, see pages 4-5, we understand that such costs are proposed to be passed along in full to CEC and E&H as part of their cost of purchased power. Accordingly, and based on these understandings, CEC and E&H are directed to recalculate the FAC and PPAC rates to reflect the elimination of UPC's proposed restructuring costs. We direct the Companies to request recovery of such costs as part of Unitil's restructuring proposal, and note that these expenses will be subject to a prudence review.

**Based upon the foregoing, it is hereby**

**ORDERED,** that the tariff NHPUC No. 12, nineteenth revised page 47 as filed on December 17, 2001 for Concord Electric Company is APPROVED; and it is

**FURTHER ORDERED,** that the tariff NHPUC No. 17, nineteenth revised page 48 as filed on December 17, 2001 for Exeter & Hampton Electric Company is APPROVED; and it is

**FURTHER ORDERED,** that CEC and E&H are directed to recalculate the FAC and PPAC rates to reflect the elimination of UPC's proposed restructuring costs; and it is

**FURTHER ORDERED,** that except to the extent of such recalculation, CEC's and E&H's FAC and PPAC rates are approved as filed; and it is

**FURTHER ORDERED,** that CEC and E&H file compliance tariffs in accordance with this Order and work papers documenting such recalculation as soon as possible but in any event no later than one week from the date of this Order.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of January, 2002.

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Thomas B. Getz  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Claire D. DiCicco  
Assistant Secretary