THE STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL PREPARED TESTIMONY OF ROBERT A. BAUMANN

2010 DEFAULT ENERGY SERVICE RATE CHANGE

Docket No. DE 09-180

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

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

Q. Have you previously testified before the Commission?

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

Q. What is the purpose of your supplemental testimony?

A. The purpose of this testimony is to provide additional information in this Docket related to the topic of customer migration and its current impact on the ES rates that will take effect on January 1, 2010. PSNH made a commitment to all parties at the noticed technical session in this docket on October 19, 2009, to file supplemental testimony that specifically addressed the issue of customer migration and its effect on the ES rates. Specifically, the issue to be addressed is the increase in the ES rate attributable to customer migration as noted in our initial testimony filed on September 24, 2009, in this docket.

Q. Please summarize the impact customer migration has had on the current ES rate?

A. This docket will set the ES rate on January 1, 2010 that will be billed to all customers who have not chosen a third party supplier. The level of migration that was assumed in our initial filing was 23%. Absent any migration, the ES rate would have been approximately 5% lower than the rate as filed. If the ES rate is applied to customers consistent with past filings, the increase in the ES rate due to migration will be borne by customers who did not, or could not chose a third party supply. The majority of the customers who presently use PSNH's default energy service are residential and smaller C&I customers. This general group of customers has limited options for a third party supply in the market.

Q. What is the dollar impact of this 5% rate differential over a full year?

A. The impact of the migration-driven differential using the rates as filed on September 24, 2009 is approximately $28 million. This value will change when PSNH updates its ES proposal on December 7, 2009.

Q. What are the underlying causes that have created this ES migration issue?

A. It is PSNH's obligation, as the supplier of last resort, to have a reliable and cost effective supply at all times to meet its assigned load obligation for every hour of every day. To that end, PSNH maintains a portfolio of power sources to meet current and future load obligations. These significant power sources are PSNH's own generation and unit entitlements, IPP generation from contracts and rate orders, contracted blocks of fixed purchase power sources, and anticipated market power purchases, mostly through the daily ISO-NE interchange process. Over the past few years, PSNH has planned and/or procured ahead of time a large portion of the load obligation with its own generation, purchased power and IPP supplies to minimize future market exposure risk from unsecured load obligations and to minimize over and under collections which can lead to moderate to wide fluctuations in energy service prices. PSNH's load obligation over the past 18 months has declined significantly, due in part to the migration of some customers (mostly larger customers) to third party suppliers, leaving the smaller customers (mostly residential and small commercial) with the higher ES rate. Mathematically, as the load drops, the denominator in the ES rate calculation drops (sales in kWh), thus increasing the ES rate. As a partial offset, the numerator of the ES rate calculation (costs) drops due to the avoidance of variable fuel costs, but not in the same proportion as the decline in the denominator. The result is that certain costs remain in both the pre- and post-migration ES calculations that do not go away as migration increases.

Q. What costs do not go away as migration increases?

A. These costs are closely linked with maintaining PSNH's obligation to serve all customers and are generally costs from PSNH's owned generation and unit entitlements, the costs of IPP purchases and the fixed purchase power costs.

Q. Does PSNH believe the current drop in load obligation due to migration will continue long term?

A. PSNH believes the current drop in energy service load obligation, plain and simple, is primarily due to the competitive market prices which historically have fluctuated dramatically over short periods of time. The current short-term unprecedented market price decline over the past 18 months has allowed certain marketers to offer selected larger customers lower ES rates than provided by PSNH's default ES rate. While we do not have a long-term forecast of ES rates, we do not believe the past 18 months is an accurate indicator for long-term prices and the dynamic energy markets have supported this time and time again.

PSNH believes the short-term market decline is more a function of the current unprecedented low natural gas prices setting the New England market price and the world-wide economic decline. These current market prices may very well be short-lived. If market prices in the future increase once again over the ES rate level, PSNH expects that some or all of these customers on third party supply would migrate back to PSNH's ES default rate. As supplier of last resort, PSNH would then be required to secure supply in a rising market for these returning customers. If prices were to fall once again below the ES rate level, we would expect that some of these returning customers would once again move to a third party supply if it were in their economic interests to do so. This again would leave the remaining customers on PSNH supply with additional costs to shoulder.

Q. Describe further the issue of many customers moving from PSNH supply to competitive supply.

A. It is reasonable to expect that many PSNH customers who have an alternative and less expensive option of third party power supply will move to that less expensive supply. Also, when that third party supply becomes more expensive, it is also reasonable to expect that many customers would move back to PSNH supply. These switching customers are simply taking advantage of a price opportunity that has been offered to them by the current regulatory environment. A result of this scenario is that a large group of smaller customers have no less expensive market alternatives and therefore remain with PSNH, supported by PSNH supply. Historically PSNH's energy service has been less expensive than any third party supply alternatives, creating great value to all of PSNH's customers. Smaller customer rates (ES) have increased while they continue to pay for the PSNH supply costs that have provided <u>all</u> customers ES rates well below market rates in the past and may likely provide that benefit in the future. PSNH believes this scenario is an unanticipated and unfair result that has impacted smaller customer rates, and is an unintended result of restructuring. Please reference the attached chart that demonstrates the recent switching volatility in migration levels.

Q. Does PSNH have a proposal at this time that would address the issues raised above?

A. Yes. PSNH suggests below two general methods that should be considered to address this current ES rate level issue. These are the general methods as noted in our response to data request Staff-01, Q-003 filed on October 28, 2009.

<u>Method 1</u>

Consider some form of a non-bypassable charge for customers or groups that arguably are shifting costs onto others by the manner in which they participate in the energy market.

<u>Method 2</u>

Remove specific cost items from the ES rate that directly benefit all customers and recover those costs through an existing non-bypassable charge to all customers, such as the SCRC, TCAM and D charges. This method, while not specifically addressing the migration impact on the ES rate, would lower the ES rate. The details behind this method evolved as the issue of higher ES rates due to migration was addressed.

Q. Describe Method 1.

A. Method 1 would directly address the Gap or increase in ES rates created by migration. It would identify the added costs being borne by small customers on PSNH supply and recover all or a part of this Gap as stranded costs through a non-bypassable rate such as the SCRC. The Gap identified previously in this testimony is approximately $28 million for 2010. The rationale supporting this method is as follows:

PSNH believes that the restructuring law was not intended to have one general group of customers shouldering additional costs as a result of another group securing lower rates. The unbundling of rates, as noted in RSA 374-F:3, III, **"to provide customers clear price information"** has little, if anything, to do with the notion of one group of customers (say, hypothetically, large commercial customers) transferring off of and back onto default service in an opportunistic manner at the detriment of smaller customers who can not move. Referring to the provision of RSA 374-F:3, VI:

"Restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another. Costs should not be shifted unfairly among customers,"

Because competitive energy supply options have not opened up for all customer classes, all consumers are not benefitting equally. The larger customer classes have benefitted to the detriment of the smaller classes of customers. Arguably the responsibility of maintaining the ability to be supplier of last resort for all customer classes has resulted in costs being shifted unfairly to the classes of smaller customers. In addition, RSA 374-F:3, V(d) provides:

"The commission should establish transition and default service appropriate to the particular circumstances of each jurisdictional utility."

PSNH's unique circumstances of owning its generation assets and using them for supplying default energy service permits the Commission to consider an approach to default service at this time which differs from those electric utilities that either divested all of their generating assets or never owned generation. PSNH believes that the guidance from the Restructuring Principles quoted above clearly supports a method that would create an equal playing field for ES rates for all customers and that such a method would properly collect the Gap increase in ES rates attributable to the unintended result of restructuring through a non-bypassable charge, such as the SCRC.

The implementation of such an adjustment to ES and SCRC would add some level of complication to the applicable calculations and accounting associated with the ES and SCRC, but PSNH believes such additional work would be warranted.

Q. Please describe Method 2.

A. PSNH believes there are a number of costs being recovered through the ES today that may now be more appropriately recovered through a non-bypassable charge. In the recent past this was not an issue as most customers were billed the ES rate, therefore, all costs in the ES rate were being recovered from all customers. Recently, as a substantial number of customers have migrated off of ES and on to a third party supply, some costs associated with system reliability or other non-energy costs should be reviewed and possibly be moved out of the ES rate and into a non-bypassable rate. Specifically, this method would remove specific cost items from the ES rate that directly benefit all customers and recover those costs through an applicable non-bypassable charge to all customers, such as the distribution charges, the SCRC and TCAM.

Q. Specifically identify these costs that you would propose be moved out of ES and into a non-bypassable charge. Identify the new rate they would be recovered in and the annual dollar amount associated with these costs that is embedded in the current ES filing before the Commission.

A. Some specific annual costs are as follows:

1. Reliability costs such as VAR support (uplift costs) which relate directly to overall system reliability and not energy could be moved to the TCAM rate. ($1.4 million)
2. The above-market costs associated with the replacement agreement for the Bio-Energy IPP purchased power agreement could be moved to the SCRC rate. This purchased power agreement replaced the Bio-Energy long term rate order when the Commission approved the arrangements with Edison Mission Marketing and Trading (Docket Nos. DE 01-089, 01-090, and 01-091); therefore, the above market costs of the purchased power agreement would appropriately be recovered through Part II of the SCRC like other above-market costs of IPPs. ($12.5 million)
3. Company Use energy costs that are not related to the generation segment of PSNH (i.e. PSNH's Area Work Centers, Energy Park and substations) could be moved to the Distribution rates. ($1.4 million)

Q. When would you propose to implement the changes to rate recovery for either method 1 and/or method 2?

A. We propose immediate implementation of Method 2 effective January 1, 2010. Our specific recommendation is to immediately adjust the ES and SCRC rates for items 1 (VAR) and 2 (Bio-Energy) contained in Method 2 and change the ES rate for item 3 (Company Use) contained in Method 2 on July 1, 2010 coincident with the anticipated change in the Distribution rates in PSNH's Distribution Rate Case, Docket DE 09-035.

With respect to Method 1, PSNH believes that further discussion should take place between all interested parties but that a change on January 1, 2010 would be premature. We do, however, believe that Method 1 should be implemented in some form in the near future; and would set July 1, 2010, as a reasonable target date (mid-year ES rate change) for this change.

Q. Does this conclude your testimony?

A. Yes, it does.

Historic Migration Levels