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The Northeast Utilities System

December 8, 2009

Debra A. Howland
Executive Director and Secretary
State of New Hampshire
Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: Proposed Default Energy Service Rate for 2010
Docket No. DE 09-180

Dear Ms. Howland:

Enclosed please find seven copies of the Rebuttal Testimony of Robert A. Baumann and David A. Errichetti. This rebuttal testimony is submitted under the revised procedural schedule contained in Order No. 25,028.

Copies have been provided to the persons on the attached Service List.

Very truly yours,

Gerald M. Eaton
Senior Counsel

Enclosures
cc: Service List

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Docket DE 09-180

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THE STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

REBUTTAL TESTIMONY OF ROBERT A. BAUMANN AND DAVID A. ERRICHETTI

2010 DEFAULT ENERGY SERVICE RATE CHANGE

Docket No. DE 09-180

Q. **Please state your names, business addressed and positions.**

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.

A. My name is David A. Errichetti. My business address is 107 Selden Street, Berlin, Connecticut. I am Manager, Generation Resource Planning for Northeast Utilities Service Company (NUSCO).

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

A. Yes. We have both testified on numerous occasions before the Commission.

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

A. The purpose of this testimony is to rebut the testimony of Mr. Michael E. Hachey filed on December 2, 2009 on behalf of TransCanada Power Marketing Ltd (TCPM). In his testimony, Mr. Hachey recommends that the Commission limit PSNH's recovery of the cost of purchases of power that PSNH made to meet its 2010 power needs that he asserts was not done in

conformance with PSNH's Least Cost Integrated Resource Plan or that he deems was not prudent or reasonable. He also recommends that the Commission require PSNH to utilize an RFP process for the purchase of power, rather than engaging in bilateral purchases of wholesale power, including the alternative of requiring PSNH to buy all of its energy service needs on a competitive basis and selling the output of its generation into the market.

PSNH takes exception to Mr. Hachey's recommendations and in this testimony describes why the Commission should reject those recommendations.

Q. **In your opinion did PSNH conform to what it filed in its 2007 Least Cost Integrated Resource Plan (LCIRP) in Docket No. DE 07-108?**

A. Yes. As we said in the response to Transcanada-01, Q-TC-022 (Attachment D), PSNH's actions taken for 2010 are wholly consistent with what was said in PSNH's Supplement 3 - Supplemental Power Procurement Strategy filed in Docket No. DE 07-108 on March 28, 2008, which was appended to the end of Section V.B.6.2, page 91: "The following discussion provides an overview of the procurement strategy that PSNH implemented for its 2007 supplemental power requirement. This overview is indicative of PSNH's current procurement strategy; however, as discussed below, PSNH does not have a prescriptive hedging protocol. By retaining flexibility in its planning process, PSNH is able to respond to changes in planning criteria and create benefits for customers."

The passage in this same supplement that TCPM insists is the inviolate procurement plan itself leads off by saying "PSNH's current procurement plan is focused primarily on the subsequent

annual period." The use of the word "current" is not trivial; it speaks to the earlier passage, repeated above – that PSNH's procurement process is dynamic and changing, not static.

The actions taken by PSNH to begin building its supplemental power supply for 2010 in early 2008 were based on market conditions, forecasted prices and forecasted procurement needs, all as of the time at which the decisions were made. PSNH's procurement strategy for 2010 continues to evolve as current market conditions, forecasted prices and procurement needs change.

Contrary to TCPM's testimony, PSNH has not strayed from the procurement principles articulated in its 2007 LCIRP. TCPM has taken a summary of what PSNH did for one period (in 2006 for 2007) and is now suggesting that PSNH can only change its procurement practices if the revised procurement strategy is vetted and approved in a LCIRP. This does not make sense as the procurement plan described in the 2007 LCIRP was itself not previously approved in a LCIRP. Therefore, Mr. Hachey's recommendation to limit PSNH's cost recovery due to PSNH's alleged failure to strictly adhere to its LCIRP is illogical and unworkable.

Q. If you accepted TCPM's view of the proscriptive effect of the LCIRP, when would PSNH be able to put into place TCPM's recommended RFP process?

A. While it is not at all clear to PSNH what power supply components TCPM proposes to be purchased under an RFP, to the extent the RFP includes energy, then according to TCPM's testimony the RFP would have to be part of an approved LCIRP before that RFP process could be implemented. Thus, assuming TCPM is correct, if PSNH's 2010 LCIRP is approved sometime in 2011, the RFP process proposed by TCPM could only occur in time to serve 2012 ES load, at the earliest.

PSNH does not agree that its procurement plan is rigidly constrained under the LCIRP. Therefore, even if we did agree that an RFP process should be utilized, PSNH would come to a different conclusion with regard to implementation and timing of that process.

Q. Does PSNH believe an RFP as proposed by TCPM, where PSNH resources first serve ES, makes the best sense for PSNH ES customers?

A. No. As noted above, TCPM has not provided specifics as to what power supply components would be in the RFP. However, the concept of utilizing an RFP for power procurement has been raised previously by Constellation and was not accepted. At that time PSNH noted that there would be a significant price premium for a third party to take on this power supply obligation, assuming there was no cost reconciliation process with prudence review. This is because the third party would have to absorb into its price load uncertainty and migration to and from PSNH's ES as well as the risk associated with outages at PSNH's generating stations. In addition, suppliers include a profit margin in the pricing that they submit in response to an RFP whereas PSNH does not include any profit in its purchased power costs.

Q. Does PSNH believe a full requirements power supply for PSNH complies with the law and would produce lower costs?

A. No. Current New Hampshire law requires PSNH resources to be used to serve ES, so the proposal is not legally permissible. RSA 369:B IV(b)(1)(A) provides, in part, as follows:

> "From competition day until the completion of the sale of PSNH's ownership interests in fossil and hydro generation assets located in New Hampshire, PSNH shall supply all, except as modified pursuant to RSA 374-F:3, V(f), transition service and default service

offered in its retail electric service territory from its generation assets and, if necessary, through supplemental power purchases in a manner approved by the commission."

Therefore, PSNH cannot sell the output of its generation into the market and then purchase its full requirements for ES from the market since PSNH is required to use the output of its generation to serve its energy service load. Even if such a scheme were legally permissible, it is inconceivable that it would always produce lower costs than PSNH's current approach. That's because of the risk premium and profit margin that suppliers must factor into their pricing. In fact, prior to 2009, PSNH's ES rates were usually lower than other utilities' equivalent default service prices. Moreover, there are no cost efficiencies created by such a scheme that could translate into lower pricing.

Regardless of historical facts, another variable is timing. Full requirement RFPs lock in a price based on forward prices on the day the RFP concludes. Since the markets move daily and sometimes significantly over just a few days, there is no assurance that full requirement RFPs will produce uniformly attractive prices. This latter issue also applies to a partial supply RFP. Laddered power supply RFPs result in stable prices, but those prices are higher than market prices in declining markets and lower than market prices in rising markets.

TCPM is essentially asking the Commission to ignore the many years of benefits that customers enjoyed under the current framework and discard the existing process as a result of a very short reversal of an established trend. ~~Indeed, at the 2008 annual NECPUC Symposium, the Office of Consumer Advocate noted, "Our ""hybrid" model, with PSNH owning generation to meet about 2/3 of its needs, is keeping rates for their customers slightly lower than market."~~

Q. Please comment on TCPM's assertions that PSNH's energy purchases for 2010 are patently expensive?

A. TCPM's remarks with respect to PSNH's energy purchases reflect perfect hindsight. At the time the purchases were made they were at market prices in effect at that time. PSNH was aware of the trend of forward prices and the amount of purchases were in line with what was then forecasted to be needed in 2010. To say that it was "common sense" that demand would drop and there was no reason to purchase power at that time, or that gas would retrench as much as it has is nonsensical. No one knew what would happen to prices and for Mr. Hachey to suggest that he knew at that time what prices would be a year or more in advance is extremely disingenuous.

Q. Please comment on TCPM's suggestion to limit PSNH's cost recovery of purchases made to meet 2010 energy requirements.

A. TCPM is apparently confused about the purpose of this docket. Cost recovery limitations, which are essentially a disallowance, would have to be determined in a prudence review, not in a docket to determine the ES rate for a prospective period. Such reviews occur annually, with PSNH's initial filing generally made in May of each year.

Q. But doesn't the law require that the price of default service be set at PSNH's actual, prudent and reasonable cost of providing power?

A. Yes, it does. However, it is clearly impossible to determine "actual" and "prudent" costs in advance of the time the cost is incurred. Actual costs and prudence is determined after-the-fact and any adjustments as a result of any Commission findings are included in the reconciliation of actual and estimated costs.

Q. Then what is the purpose of this proceeding?

A. The purpose of this proceeding is to determine a reasonable Energy Service rate to be billed to customers during 2010. It is not, as suggested by TCPM to determine actual and prudent costs incurred in 2010, nor is it to determine an alternative supply option that would benefit third party suppliers such as TCPM. Therefore, TCPM's recommendation to disallow costs is premature and is being made in the wrong docket.

Q. Please summarize your recommendations.

A. The Commission should reject TCPM's recommendations to limit PSNH's cost recovery since that recommendation is without merit and is being made in the wrong docket. The Commission should also reject TCPM's recommendation to require PSNH to use an RFP process for procuring power for its supplemental energy service requirements. Such a process would cost customers money due to the necessary risk premium and profit margin that would be included in the price. Finally, the Commission should accept PSNH's proposed Method 2 to recover certain costs through other rate components. PSNH notes that the Commission Staff believes that such a proposal has merit, and that TCPM does not object to such a proposal.

Q. Does this complete your testimony?

A. Yes, it does.