

**STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITY COMMISSION**

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
RECONCILIATION OF ENERGY SERVICE AND STRANDED COSTS FOR
CALENDAR YEAR 2007**

**PREPARED TESTIMONY OF
ROBERT A. BAUMANN**

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

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

8 **Q. What are your responsibilities as Director - Revenue Regulation and Load Resources?**

9 A. I have overall responsibility for the planning and coordination of revenue requirement
10 filings for PSNH, and for the planning, coordination, and implementation of fuel and
11 generation recovery mechanisms and all other fuel recovery matters for the NU operating
12 companies, before regulatory commissions including the New Hampshire Public Utilities
13 Commission (PUC or the Commission).

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

15 A. Yes. I have testified in numerous hearings for PSNH. I have also testified in proceedings
16 before the Connecticut Department of Public Utility Control, the Massachusetts
17 Department of Public Utilities and the Federal Energy Regulatory Commission.

1 **Q. Will anyone else be providing testimony in support of this filing?**

2 A. Yes. PSNH continues to supply, through its own generating units, the electricity needs of
3 customers who elect to receive Energy Service. In support of this issue, the following
4 individuals will sponsor testimony in this proceeding.

5 William H. Smagula of PSNH will review the performance of PSNH's fossil-hydro
6 generation units and Richard C. Labrecque of NUSCO will review how PSNH met its
7 energy and capacity requirements during this reporting period given its level of resources.

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

9 A. The primary purpose of my testimony is to provide an overview of this filing and to seek
10 approval of the reconciliations between the revenues and expenses contained within
11 PSNH's Energy Service (ES) and Stranded Cost Recovery Charge (SCRC) filings for the
12 twelve-month reporting period January 1, 2007 through December 31, 2007 ("reporting
13 period").

14
15 During this reporting period, ES revenues exceeded the related costs by \$1.4 million (over-
16 recovery). The ES over-recovery is mainly attributable to decreases in market prices
17 during 2007. Supporting calculations are contained in Attachment RAB-4, page 6.

18
19 During this reporting period, SCRC revenues exceeded the related costs by \$6.8 million
20 (over-recovery). The SCRC over-recovery is primarily attributable to the recovery of a
21 prior period under-recovery balance. Supporting calculations are contained in Attachment
22 RAB-4, page 1.

23
24 **Q. Please describe the ratemaking framework that began on May 1, 2001.**

25 A. On May 1, 2001 (Competition Day), PSNH began to recover costs under the Restructuring
26 Settlement. Under the terms of the Restructuring Settlement, PSNH continues to recover
27 costs related to the generation and delivery of electricity, but the specific rate structure now
28 in place segments recovery into various components. The three major components of that
29 segmentation are the Delivery Charge, the SCRC, and the ES Charges. Two of the major
30 interrelated rate components, the SCRC and the ES, are the subject of this proceeding.

31 **Energy Service Charge**

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2 **Q. Explain how the SCRC and the ES Charge interrelate?**

3 A. Through January 31, 2006, the ES rate recovery was a subset of the SCRC. The difference
4 between ES revenues and ES costs was accounted for and included as an adjustment to Part
5 3 non-securitized stranded costs, which was a component of the SCRC. Effective February
6 1, 2006, ES reconciliation amounts were no longer applied to the SCRC. Instead, ES
7 reconciliation amounts were deferred and applied to future ES rates per Order No. 24, 579
8 in Docket No. DE 05-164.

9

10 The SCRC recovers all stranded costs and will be described later in this testimony.

11 **Q. Please describe the ES recovery mechanism.**

12 A. Under restructuring, customers have a choice regarding their energy supplier. Customers
13 may contract and obtain energy on their own, or they may choose to continue to receive
14 their energy from PSNH.

15 Under the terms of the Restructuring Settlement and subsequent legislation, PSNH is
16 required to provide ES to those customers who request it. Initially, ES rates were set by
17 statute. Beginning in February 2003, the ES rate for large commercial and industrial
18 customers (Group 2) was based on PSNH's forecast of "actual, prudent and reasonable
19 costs" (4.67 cents). Beginning in February 2004, the ES rate for all retail customers was
20 based on a forecast of PSNH's "actual, prudent and reasonable costs of service." The chart
21 below shows the ES rates per kWh which have been in effect since Competition Day.

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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		8.82

(a) Set by statute for all retail customers.

(b) Small C&I and residential set by statute (4.60 cents). Large C&I set on forecasted costs (4.67 cents)

Q. Please describe the costs incurred in providing ES to customers during the twelve-month reporting period.

A. ES costs include the fuel costs associated with PSNH’s generation as well as costs and revenues from energy and capacity purchases and sales, including IPP power valued at market prices. In addition, ES costs include the non-fuel costs of generation including non-fuel O&M, depreciation, property taxes and payroll taxes, and a return on the net generation investment. These are all costs associated with PSNH’s ownership of generation. Detailed information on the cost of generation is included in Attachment RAB-3 and Attachment RAB-4, page 6.

Q. For the twelve-month reporting period covered in this filing, how have the ES rates, as outlined in your table, compared to the actual costs of supplying power during the same periods ?

1 A. In attachment RAB-3, we have calculated that the average ES cost for 2007 was
2 approximately 8.19 cents per kWh resulting in an ES over recovery of \$1.4 million.

3
4 The performance of PSNH's owned generation for the year continued to be excellent,
5 providing approximately **60%** of PSNH's energy needs. Mr. Smagula provides further
6 detailed testimony regarding specific units and their performance during 2007. When
7 combined with IPP purchases, IPP buyout replacement purchases and the Vermont Yankee
8 purchased power arrangement which contributed another **12%** of energy requirements,
9 PSNH met **72%** of its energy needs. The remaining **28%** of PSNH's energy needs were
10 met by spot market purchases (**5%**) and bilateral energy purchases (**23%**).

11
12 As a result of lower than expected energy costs in 2007, ES costs were lower than ES
13 revenues resulting in a \$1.4 million ES over-recovery. In its initial decision in Docket No.
14 DE 03-175 (Order No. 24,252), the Commission reiterated its desire to avoid ES cost
15 deferrals. As a way to minimize these deferrals, the Commission provided any interested
16 party with the option of making an interim ES rate filing, with the objective of setting a
17 revised ES rate. In May 2007, PSNH filed such a petition with the Commission requesting
18 an interim reduction to the existing ES rate. A rate decrease was granted by the
19 Commission (Docket No DE 06-125, Order No. 24,768) resetting the ES rate from 8.59
20 cents per kilowatt-hour to 7.83 cents per kilowatt-hour for all customer classes effective
21 July 1, 2007. This new rate remained in effect through December 2007. The decrease in
22 the ES rate resulted in PSNH under-recovering its ES costs in the second half of 2007 by
23 \$2.1 million. The net ES deferral for the twelve months ended December 2007 was a \$1.4
24 million over-recovery as calculated in Attachment RAB-3.

25 **Stranded Cost Recovery Charge**

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27 **Q. Please describe the SCRC and its components in more detail.**

28 A. The SCRC recovers costs categorized as "stranded" by New Hampshire restructuring law
29 RSA 374-F and 369-B. The initial SCRC average rate of 3.4 cents per kWh was agreed to
30 in the Restructuring Settlement which further defined what PSNH's stranded costs were
31 and categorized them into three different parts (i.e. Parts 1, 2, and 3) based on their priority
32 of recovery. Effective June 30, 2006 Part 3 costs were fully recovered.

1 **Q. Please describe the costs that are recovered through the SCRC.**

2 A. The first tier, Part 1 stranded costs, has the highest priority for recovery. All Part 1 costs
3 have been securitized through the issuance of rate reduction bonds (RRB). Part 1 costs
4 consist of the over-market portion of Seabrook regulatory assets, a portion of PSNH's share
5 of Millstone 3, and certain financing costs that were incurred (i.e. underwriters fees, legal
6 fees, etc.) while obtaining the RRB financing. Included in Part 1, effective February 2002,
7 was an additional \$50M in RRBs for the costs of financing of the buydown of the
8 Whitefield independent power producers (IPP) rate order. In addition, RRB interest and
9 RRB fees are also recovered as Part 1 costs. Page 4 of Attachment RAB-4 shows the
10 recovery of Part 1 costs by month.

11 The second tier, Part 2 stranded costs, includes "ongoing" costs consisting of the over-
12 market value of energy purchased from IPPs and the up-front payments made for IPP buy-
13 downs and buyouts previously approved by the Commission, and PSNH's share of the
14 present value of the savings associated with these buy-down and buy-out transactions.
15 PSNH is amortizing these up-front payments over the respective terms of the original IPP
16 rate orders, including a return on the unrecovered costs.

17 In addition, Part 2 costs now include a negative return on the credit for deferred taxes
18 related to the Part 1 securitized stranded costs and a return on the unpaid contract
19 obligations to Connecticut Yankee Atomic Power Co., Maine Yankee Atomic Power Co.,
20 and Yankee Atomic Energy Corp., net of related deferred taxes. Page 5 of Attachment
21 RAB-4 shows the detailed Part 2 costs by month.

22

23 **Q. What is your estimate of how long PSNH will continue to bill the SCRC?**

24 A. The response to this question varies depending on the type of cost. Part 1 costs are
25 recovered through the SCRC over the life of the corresponding terms of the rate reduction
26 bonds. Part 1 recovery is expected to end in 2013 when PSNH expects that the RRBs will
27 have been paid off.

28 The timing of Part 2 cost recovery through the SCRC is dependent on the type of cost.
29 There are several types of Part 2 costs: ongoing purchases from the IPPs; the amortization
30 of up-front payments associated with buyouts or buydowns of IPP rate orders or contracts;
31 and various returns including 1) the return on the credit for Part 1 related deferred taxes, (2)

1 returns on Part 2 stranded costs and the outstanding Yankee contract obligations, (3) the
2 return on SCRC deferred balance.

3 Ongoing IPP purchases are obligations that will end when the various rate orders or
4 contracts expire. The amortization of up-front payments associated with buyouts or
5 buydowns of IPP rate orders or contracts are also being amortized over the remaining life
6 of the respective rate order or contract. The last such rate order or contract expires in the
7 early 2020's. However, most wood-burning IPP rate orders expired in late 2006 with the
8 last rate order for a wood-fired IPP expiring in 2008. Therefore, Part 2 costs have
9 decreased and will continue to decrease as those rate orders expire. In addition, the credit
10 for Part 1 related deferred taxes pertaining to RRBs will end in 2013 once all Part 1 costs
11 are fully recovered.

12
13 **Q. Please provide an overview of stranded cost recovery during the 2007 reporting**
14 **period.**

15 A. During the reporting period, PSNH reported \$109 million in SCRC revenues, which
16 allowed for the full recovery of Part 1 and Part 2 stranded costs. In addition, this revenue
17 level allowed for additional recovery of \$6.8 million related to a prior year under-recovered
18 balance.

19 During the reporting period, the total accumulated balance of Part 1 and 2 costs was
20 reduced by \$61 million from \$355 million at the end of 2006 to \$294 million at the end of
21 2007. See Attachment RAB-4, page 1.

22
23 **Q. Was there activity through the Seabrook Power Contracts in 2007 that affected the**
24 **Seabrook net proceeds figure?**

25 A. Yes. There have been minor credits to NAEC in 2007 that increased Seabrook net
26 proceeds on a cumulative basis by approximately \$0.4 million. See Attachment RAB-4,
27 page 7. While there may be additional charges and credits in 2008 that will further impact
28 the net proceeds figure, we do not expect these amounts to be significant. However, we are
29 unable to quantify these charges and credits at this time.

30
31 **Q. Will these Seabrook related subsequent charges and credits be passed on to PSNH?**

1 A. Yes, the Seabrook Power Contracts between PSNH and NAEC are still in place for
2 Seabrook sale reconciliation purposes. These contracts have allowed NAEC to pass on to
3 PSNH any charges or credits related to the sale of the plant through Part 3 non-securitized
4 costs, as did the initial sales proceeds.
5

6 **Q. Did PSNH file a summary of benefits for the NWPP project?**

7 A. Yes. Attachment RAB-4, page 11 provides the NWPP revenue target as well as the
8 projected incremental revenues based on Schiller Unit 5 generation, consisting of
9 Renewable Energy Certificates (RECs) and Product Tax Credit (PTCs). These 2007 credits
10 will be trued up to actual in the 2008 ES/SCRC filing.
11

12 **Q. Are there any other significant issues included in this filing?**

13 A. Yes, there is one. On page 10 of Attachment RAB-4, PSNH has included an adjustment in
14 December 2007 that increases overall net costs by \$1.941 million. This adjustment
15 removes the 2007 wholesale distribution service revenues that PSNH received from Unitil
16 that were incorrectly credited to ES costs in the previous quarterly ES filings in 2007. This
17 error was also contained in the previously adjudicated 2005 and 2006 ES reconciliation
18 dockets. The total amount credited for those two years was \$3.116 million, but PSNH is
19 not requesting recovery of that amount.
20

21 **Q. Why is PSNH not seeking a correction and recovery of the 2005 and 2006 Unitil
22 revenues?**

23 A. The ES costs and revenues associated with 2005 and 2006 have been adjudicated and the
24 related dockets have been closed. In addition, an accounting adjustment to the current
25 deferred fuel balance sheet account is required to correct the misallocation of revenues
26 related to 2007. No such correction for 2005 and 2006 is warranted as the related deferred
27 fuel balance sheet values have been fully amortized.
28

29 **Q. What would be the consequences of not making the correction for 2007 and 2008?**

30 A. If this correction is not made, then the wholesale distribution revenue received from Unitil
31 will effectively be credited to customers twice. In the most recent rate case, PSNH
32 included the wholesale distribution revenue from Unitil in its operating revenue, thereby
33 decreasing its revenue deficiency (see Docket No. DE 06-028, Schedule 1 Attachment,

1 pages 5 and 5a). If the correction described above is not made, customers will not only
2 receive the credit through distribution rates, but will also receive it through the ES rate.

3

4 **Q. Please summarize your request to the Commission.**

5 A. PSNH is requesting that the Commission approve the 2007 SCRC and ES reconciliations
6 and find that PSNH's costs were prudently incurred.

7

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

9 A. Yes, it does.