

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

**DIRECT TESTIMONY OF
CHRISTOPHER J. GOULDING AND FREDERICK B. WHITE**

Petition to Establish a 2015 Alternate Default Energy Service Rate

Docket No. DE 11-216

1 **Q. Please state your names, business addresses and positions.**

2 A. My name is Christopher J. Goulding. My business address is 780 North
3 Commercial Street, Manchester, NH. I am employed by Northeast
4 Utilities Service Company (NUSCO) as the Manager, Revenue
5 Requirements – PSNH. NUSCO provides centralized services to the
6 Northeast Utilities (NU) operating subsidiaries Public Service Company of
7 New Hampshire (PSNH), The Connecticut Light and Power Company,
8 Yankee Gas Services Company, Western Massachusetts Electric
9 Company, NSTAR Electric Company and NSTAR Gas Company.

10 A. My name is Frederick B. White. My business address is 107 Selden St,
11 Berlin, Connecticut. I am a Supervisor in the Energy Supply department
12 of Northeast Utilities Service Company (“NUSCO”).

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

14 A. Yes, we have both have previously testified before the Commission.

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

2 A. The purpose of our testimony is to seek approval of proposed changes
3 toPSNH’s Alternative Default Energy Service rate (“Rate ADE”) rate for
4 effect on January 1, 2015.

5 **Q. Could you provide some background on Rate ADE?**

6 A. In Order No. 25,488 issued on April 8, 2013, the Commission approved a
7 partial settlement allowing Rate ADE to take effect as a 36-month pilot
8 program. Under the settlement, the price for Rate ADE is set on an annual
9 basis at the same time PSNH sets the price for Rate DE, and is based upon
10 PSNH’s marginal costs to serve customers plus an adder equal to the non-
11 operating costs of the wet flue gas desulfurization system (“Scrubber”) at
12 Merrimack station, as described more fully later in this testimony. The
13 settlement also allowed for a mid-term adjustment to the rate if PSNH’s
14 projected marginal costs for the remaining months of the annual period
15 increased by at least 75% of the amount of the adder. The rate would
16 temporarily close if this were to occur, with the understanding that the rate
17 would be recalculated for the next six month period starting July 1. Due
18 to this provision, the rate has been closed to new customers since March
19 2014.

20 A customer becomes eligible to receive service under Rate ADE once that
21 customer has been receiving service from a competitive supplier for at
22 least 12 consecutive months and remains eligible for the 12 months

1 following the customer's return to PSNH's service, the "term of service".
2 During the term of service, a customer is allowed to return to competitive
3 supply without re-setting the term of service, unless that customer returns
4 to competitive supply for 12 consecutive months. Under the settlement,
5 Rate ADE would initially be available to customers taking service under
6 rates LG and GV, with the availability opening to customers on rates G
7 and R nine months after implementation.

8 **Q. How have you calculated the price for service under Rate ADE in the**
9 **past?**

10 A. Pricing under Rate ADE was determined annually and the rate would
11 remain in effect for a full year unless there was a significant shift in the
12 market, as described above and below. PSNH would request that any
13 price change for Rate ADE be effective as of January 1 for a 12-month
14 period.

15 The price was based on a forecast of the marginal cost to provide full
16 requirements service to the New Hampshire load zone, plus an adder. The
17 forecast of the marginal cost included forward energy market prices,
18 forward capacity market prices, forecasted ancillary service costs,
19 forecasted ISO-NE market administration costs, and forecasted renewable
20 portfolio standard compliance costs, all of which were determined in a
21 manner consistent with that utilized in filings for rate DE. In practice, the
22 marginal cost to provide full requirements service to the New Hampshire

1 load zone is calculated as the change in cost to serve energy service load
2 divided by the change in energy service sales resulting from the removal
3 of migration from the energy service rate forecast. The price will be
4 subject to change if PSNH's forecasted marginal costs increased by a
5 predetermined amount.

6 The adder is equal to the non-operating costs of the Merrimack station
7 Scrubber divided by forecasted Energy Service sales under rate DE. Non-
8 operating costs include depreciation, return on rate base including income
9 taxes and any incremental property taxes. The adder is calculated based
10 on the non-operating cost of the Scrubber to comply with RSA 125-O:18,
11 which requires that all prudent costs of complying with RSA 125-O:13
12 must be recovered through the default service charge. Previously, the
13 Commission expressed concern that the proposed per kWh adder in
14 PSNH's original Rate ADE proposal was not supported by the record. *See*
15 *Order No. 25,320 (January 26, 2012)*. Once the Scrubber went into
16 service, the non-operating cost were known, and provided a cost basis to
17 calculate the adder.

18 **Q. Why is pricing of Rate ADE premised on PSNH's marginal costs?**

19 A. Pricing of Rate ADE is based on PSNH's marginal costs for two reasons:
20 i. to provide customers with the proper price signal; and, ii. to comply with
21 the Commission's conclusion in *Order No. 25,256 (September 23, 2011)*
22 that "it is reasonable that PSNH be allowed to charge customers who

1 return to its default service an alternative default service rate reflecting the
2 marginal cost to serve that load.” Customers who have opted to take
3 service from a competitive supplier have demonstrated price sensitivity
4 and by pricing closer to marginal cost, PSNH is able to send those
5 customers an appropriate price signal.

6 **Q. Is PSNH proposing a new rate design for January 1, 2015?**

7 A. Yes. On June 23, 2014, the Commission Staff and the OCA filed a joint
8 recommendation noting that Rate ADE was not achieving the customer
9 savings that had been anticipated and had, in fact, resulted in customers on
10 PSNH’s Rate DE bearing a greater share of costs than had been
11 anticipated. On June 25, 2014, PSNH filed a response stating that it
12 agreed that circumstances warranted revisiting the implementation of Rate
13 ADE and, potentially, revising the terms and conditions for the rate.
14 PSNH also agreed that the rate should remain closed to new customers
15 pending this review. On June 27, 2014, the Commission issued a
16 secretarial letter ordering PSNH to work with others on potential
17 modifications to Rate ADE, including whether to continue Rate ADE
18 through the remainder of the pilot term and to propose any modifications
19 for effect on January 1, 2015.

1 **Q. Please describe the proposal to redesign Rate ADE.**

2 A. Given the volatility of the energy market in the winter of 2013-2014, and
3 based upon discussions with others, PSNH is proposing to change the
4 design of Rate ADE. First, with respect to eligibility, the redesigned Rate
5 ADE would only apply to customers taking service under rates GV, LG
6 and B and would not be available to customers taking service under rates
7 R, R-OTOD, G, G-OTOD, EOL or OL. As of January 1, 2015, any
8 customer taking service in rate classes GV, LG or B and taking service
9 under Rate ADE on that date will stay on Rate ADE and any customers in
10 these rate classes taking service with a competitive supplier that comes
11 back to PSNH's default service after January 1, 2015 will be required to
12 take service under Rate ADE. Rate DE will not be available to these
13 customers. However, for customers in these rate classes who are taking
14 service on Rate DE on January 1, 2015, they would remain on Rate DE
15 until they leave to take service from a competitive supplier. Should they
16 begin taking service from a competitive supplier after January 1, 2015, if
17 or when they return to PSNH for default service, they will be required to
18 take service under Rate ADE. Also, the requirement for a customer to
19 have been taking service from a competitive supplier for 12 consecutive
20 months to be eligible would be eliminated.

21 In short, all customers in rate classes GV, LG and B who are not taking
22 service under Rate DE from PSNH on January 1, 2015 will only have Rate

1 ADE available as a default service option when or if they take default
2 service from PSNH after January 1. For any customer in those rate classes
3 taking service under Rate DE as of January 1, 2015, the customer would
4 remain on Rate DE for as long as the customer remains with PSNH.
5 Should the customer leave Rate DE for competitive supply at any point
6 after January 1, 2015, only Rate ADE will be available as a default service
7 option when or if they take default service from PSNH again.

8 **Q. Are there changes other than the eligibility?**

9 A. Yes. The price of the redesigned Rate ADE will also be calculated
10 differently than the existing Rate ADE.

11 **Q. Please explain how PSNH will calculate the new rate.**

12 A. Under the new design, Rate ADE would be a monthly rate, rather than an
13 annual rate. On or by the 15th of the month PSNH would file a new rate
14 and tariff pages to take effect on the first of the following month. For
15 implementation on January 1, 2015, PSNH would make a filing in
16 December showing the price of Rate ADE for the month of January 2015,
17 along with illustrative projections of expected prices in the following
18 months for informational purposes only. Then, on or by January 15,
19 PSNH would file information on the price of Rate ADE for effect in the
20 month of February with updated illustrative pricing for the balance of the
21 year, and so on for the remaining months. In this way, Rate ADE would

1 track variations in the market more closely than it does now and would
2 help ensure that the price charged for service more closely matches the
3 actual costs incurred by PSNH to provide that service.

4 Currently, PSNH already files a forecast of monthly rates for Rate ADE
5 on or before the 15th of the month for the following months through the
6 end of the calendar year, but does not change the rate. The purpose of this
7 filing is to provide information about whether market prices have
8 increased greater than 75% of the adder to determine if the rate should be
9 closed to new customers.

10 Under this proposal, Rate ADE would no longer close. Because the rate
11 will be calculated on a monthly basis, the price will track closer to current
12 market conditions, and there would no longer be the need to close Rate
13 ADE. Any over or under recovery should be nearly mitigated by using the
14 most current energy pricing. As part of the price for Rate ADE, PSNH
15 would continue to include the adder because it is required by the law and,
16 in addition, it would provide a buffer to market price fluctuations. As with
17 the current Rate ADE, any over or under collection would be reconciled
18 through the the energy service rate.

1 **Q. Why is PSNH proposing to change the rate design?**

2 A. In additions to the concerns of the Staff and OCA noted previously, during
3 the past winter, PSNH saw a significant portion of load return to default
4 service in periods of high market prices, presumably because it was
5 economically advantageous to do so. Returning customers were placed
6 on PSNH's default rates (both DE and ADE) which tended to be lower
7 than prevailing market prices. Because of the disparity between PSNH's
8 default rates and market prices, PSNH was serving these customers by
9 obtaining energy at rates higher than it could charge. To exacerbate the
10 problem, many of those customers returned to the competitive market
11 once prices moderated, leaving behind costs that the remaining customers
12 had to bear. Customers, who stay with PSNH for a long duration do not
13 benefit, and are, in fact, harmed by customers who come back to PSNH
14 during high priced winter months, then leave during the lower priced
15 shoulder and summer months.

16 **Q. Could you explain the kinds of "harm" caused by customers moving**
17 **between competitive supply and PSNH's default service during high**
18 **and low price months?**

19 A. PSNH runs its plants when it's in the economic interest of customers.
20 During the cold winter months of 2014, PSNH ran its plants and created
21 substantial benefits for customers. PSNH, however, also saw a significant
22 amount of load in the GV and LG rate classes migrate back to PSNH at

1 the lower PSNH price, versus the higher market price. Had these
2 customers stayed in the market, the benefit to non-migrating customers
3 would have been that much higher.

4 As noted in 374-F:3, VI, “Restructuring of the electric utility industry
5 should be implemented in a manner that benefits all consumers equitably
6 and does not benefit one customer class to the detriment of another. Costs
7 should not be shifted unfairly among customers.” Over the last few years,
8 it has become evident that small and large industrial customers have
9 become more attuned to the energy markets, and PSNH is finding that
10 costs are being shifted unfairly between customer classes. By migrating
11 between the competitive market and PSNH’s default service at opportune
12 times, these larger customers have been creating costs that are borne by
13 smaller customers, particularly residential ones, who are less likely to
14 migrate. Therefore, not only is the migration reducing the total benefits to
15 non-migrating customers, it is shifting the burden to them as well.
16 For example, over the last twelve months residential customers have
17 shown little migration, with approximately 25% of load, and 22% of
18 customer count taking service from competitive supply. To contrast, in
19 the same period of time customers in the smaller industrial class have had
20 migration rates between 82% of load in low price months, and 72% of
21 load in high priced In the large industrial class, between and 87% and
22 95% of load migrates in a similar fashion. Looking at customer counts in

1 the large industrial class for that same period, the fluctuation is as low as
2 76% of customers migrated in high price months up to 89% of customers
3 migrating in the lower priced months. Given the large loads represented
4 by these customers and the corresponding costs to serve that load, their
5 migration patterns can create and have created substantial costs for the
6 non-migrating customers.

7 **Q. Did PSNH look at other possibilities other than redesigning the rate as**
8 **you've described?**

9 A. Yes.

10 **Q. Could you describe the other possibilities and why you're not**
11 **proposing those?**

12 A. Among other things, PSNH looked at the possibility of eliminating Rate
13 ADE altogether. However, if PSNH were to close the rate, then customers
14 coming back to PSNH during the high price months would reap the
15 benefits of PSNH's stable, and likely lower, annual rate and may leave
16 again once market prices shift. Therefore, by eliminating the rate, the
17 underlying problem of these customers using PSNH as a backstop during
18 high priced months will not be addressed and may actually be intensified.

19 **Q. Did PSNH look at a "stay out" provision?**

20 A. Yes. In their June 23, 2014 joint recommendation the Staff and OCA
21 renewed a prior proposal that a 1 year "stay out" provision may address

1 the underlying issue. PSNH is also aware that in Order No. 25,256 (July
2 26, 2011) in Docket No. DE 10-160 the Commission concluded that a stay
3 out provision could be legally permissible if it was crafted to comply with
4 restructuring policy principles. *See* Order No. 25,256 at 30. Initially,
5 PSNH notes that among the restructuring policy principles in RSA chapter
6 374-F is that PSNH is to provide default service to any customer without a
7 supplier, regardless of the reason. *See* RSA 374-F:2, I-a Moreover, the
8 Commission has noted that any stay out must recognize that PSNH has a
9 universal service obligation. *See* Order No. 25,256 at 30 and RSA 374-
10 F:3, V(c). Therefore, since PSNH has a universal service obligation, and a
11 customer may be without a supplier at any time and for any reason, it is
12 not clear how PSNH could actually prevent a customer from returning to
13 default service by use of a “stay out” provision. PSNH recognizes that the
14 Commission has the authority to establish default service appropriate to
15 the circumstances to each utility, RSA 374-F:3, V(d), and a stay out
16 provision may ultimately make sense as a solution to the identified issues.
17 However, even if legally permissible, PSNH does not believe there would
18 be adequate time to craft and implement a “stay out” provision that
19 complies with the restructuring principles in time for the January 1, 2015
20 implementation date identified by the Commission.

21 In addition, PSNH is aware that on September 8, 2014, the Commission
22 issued Order No. 25,715 in Docket No. DE 14-211 relating to an

1 alternative default service procurement plan proposed by Liberty Utilities.
2 In that Order, the Commission ordered Staff to begin a stakeholder process
3 exploring procurement of retail electric supply in New Hampshire. PSNH
4 believes that making the relatively minor amendment to the pricing and
5 availability of Rate ADE proposed by PSNH would provide an appropriate
6 short term solution pending the outcome of that process. However, to go
7 through the process of crafting a “stay out” provision that complies with
8 the restructuring principles if there are other, broader changes to be made,
9 does not appear warranted.

10 **Q. Did PSNH look at a “stay in” provision?**

11 A. Yes, however, such a provision would appear to be contrary to the
12 restructuring principles. Under RSA 374-F:3, II, customers are expected
13 to be able to choose a supplier and under RSA 374-F:3, VII, the rules that
14 govern market activity are expected to apply to all buyers and sellers in a
15 fair and consistent manner in order to ensure a fully competitive market.
16 Should PSNH require customers to stay on its default service for a period
17 of time, regardless of whether those customers desired to do so, PSNH
18 would not only be denying the customers the ability to choose, but would
19 also be preventing the implementation of a fully competitive market.
20 Accordingly, PSNH did not seek to propose a “stay in” provision.

1 **Q. When will customers who only have Rate ADE available to them be**
2 **allowed to come back to PSNH's Rate DE?**

3 A. Rate ADE was implemented on a pilot basis for 36 months and that period
4 will run on July 1, 2016. PSNH is proposing that even with the change
5 proposed in this filing, when the pilot ends as noted in the Settlement
6 Agreement, any customer on Rate ADE would then be moved to Rate DE
7 on their next meter reading date. Until that time, any Rate GV or LG
8 customer coming back to PSNH default service would only have Rate
9 ADE available.

10 **Q. When will PSNH file the 2015 monthly Rate ADE rates?**

11 A. The Company will file the forecasted monthly Rate ADE rates in the
12 December filing update. This will ensure that the most recent marginal
13 costs and forecasted prices will be filed. PSNH is not filing 2015
14 forecasted rates for Rate ADE at this time as there is too much uncertainty
15 in what those rates will be for January 1 through December 31, 2015.

16 **Q. Does this complete your testimony?**

17 A. Yes, it does.