

**Annual Report of the**  
**Legislative Oversight Committee**  
**on**  
**Electric Utility Restructuring**

(RSA 374-F:5)

Membership

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Rep. James E. Devine  
Rep. Laurence M. Rappaport

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**November 1, 2013**

competitive suppliers. Customers have become aware of the price differential and many have switched to a competitive supplier. The migration of customers to competitive suppliers leaves behind fewer default service customers and fewer kilowatt-hour sales to pay for the fixed generation costs. This results in further upward pressure on the default service rate, the potential for an even greater price differential between default and competitive rates, and a continued erosion in the base of customers paying for these fixed costs as more customers migrate away. The very real prospect of an upward spiral in the default service rate with fewer and fewer customers taking such service is indicative of a system that is broken and in need of repair.

The Committee believes that it may be time to consider the process that began in 2000 for PSNH to fully divest its generation assets. Though the Legislature put a temporary hold on the sale of PSNH's fossil and hydro assets, that was at a time when wholesale and retail markets were less developed and their regulation was less robust. The sale of the generation assets would be in line with the original intent of the restructuring law (RSA 374-F) that all electric service, including default service, be competitively procured.

However, the Committee believes that it would be best at this juncture to have the PUC determine whether the sale would be in the best overall economic interests of PSNH ratepayers after taking into account the following considerations:

1. The degree to which ownership provides a cost-effective hedge for PSNH default service customers against high electricity prices from whatever cause.
2. Whether and if so to what degree ownership provides PSNH ratepayers with a greater level of service reliability as compared to other ratepayers in the state or region.
3. The level of risk associated with continued ownership, including environmental regulation.
4. The degree to which the future value of the assets in the generation market will be reflected in any sales price which would benefit ratepayers.

The PUC is encouraged to open and to expedite, insofar as practicable, a proceeding to investigate this issue and to provide the findings of its analysis to this Committee. The Committee would like to receive a preliminary status report by April 1, 2014, or earlier if feasible, that would include at a minimum the PUC's staff position on this issue, the associated analysis of any independent consultants, and any recommendations for legislation that may be needed to move the process forward. Legislation will be filed prior

to the session in anticipation of this possible need for statutory changes to existing law.

The Committee realizes that there is a strong likelihood that a sale of PSNH's generation assets would not realize sufficient revenues to pay for all costs associated with those assets that are on or will be on PSNH's books. However, the Committee also realizes that such "stranded costs" or uneconomic costs exist whether or not the assets are sold and must be dealt with in one manner or another.

Securitization is a means by which stranded costs can be paid for at the lowest cost to ratepayers through the issuance of low interest bonds. Repayment of the bonds is assured through a special charge that all customers connected to the utility must pay, whether taking default service or served by a competitive supplier. The Legislature authorized securitization of PSNH's stranded costs once before in 2000 after a settlement agreement was reached relative to implementing the original restructuring law (RSA 374-F) as it pertained to PSNH. Securitization, which provides extraordinary benefits to the utility through a lump sum payment of costs, was only agreed to by the Legislature after PSNH agreed to concessions relative to its stranded costs. The Committee believes the Legislature should require similar burden sharing by the utility and that there should be a significant write-off of uneconomic costs before securitization is authorized again in the context of any settlement. The Committee is aware of the testimony given by PSNH to the Legislature on past scrubber related bills in which lawmakers were provided with cost and rate impact information for the scrubber that significantly underestimated the actual cost and rate impacts of the project. Given this and PSNH's strong and consistent advocacy for the scrubber project before the Legislature, it is only fair to ratepayers that PSNH bear part of the financial responsibility for any resulting excessive costs.

## **Natural Gas**

Over the past 25 years, natural gas has grown from a minor fuel source for generating electricity in the New England region to the dominant one, accounting now for over 50% of production. In the same timeframe, oil's portion of production has dropped from about one third to what now accounts for a negligible amount. Reliance upon coal has also fallen dramatically to about 3% of production.<sup>3</sup>

This increased production of electricity from natural gas has occurred because many new high efficiency gas generation plants have been constructed in the region and the price of

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<sup>3</sup> See pages 30-31 of the October 2, 2013 presentation by ISO New England to this Committee for information on the capacity and production from various fuels.

natural gas has significantly declined. The combination of high efficiency and low fuel cost allows these power plants to outcompete the older oil and coal plants in the regional wholesale market. Since power plants are dispatched by ISO-New England from least to most expensive to operate, oil and coal plants are not called on to run during much of the year because of their relatively high cost of power.<sup>4</sup>

Though the increased use of natural gas has benefited New Hampshire's citizens and its' economy through lower energy prices, concerns have arisen about a possible over-reliance on this energy source to produce the electricity the region needs. Two matters, in particular, are of concern to the Committee, though the state may have little ability to address them.

The first concern is that the extraction technology (hydraulic fracturing or "fracking") that is responsible for the abundant supply of low cost natural gas is strongly opposed by many due to potential environmental impacts. If stronger environmental regulations are put in place, it is uncertain how this may effect the price and supply of natural gas and in turn electricity prices. Since natural gas is not found in and subsequently extracted from the geologic formations of New Hampshire, it will be up to the federal government and the governments of other states where fracking occurs to decide the level of protections and restrictions imposed on the extraction process.

The second concern is that the flow of natural gas into New England is constrained by the current supply pipelines that feed the region. During most times of the year the capacity is adequate. However, in the winter months natural gas is also used for heating purposes. This causes the overall demand for natural gas to rise significantly, often exceeding the capacity of the pipelines to supply the region. At these time, the available natural gas first goes to those using it for heat. What remains is not sufficient to fully fuel the generating plants that would normally run, and so the plants are forced to curtail production. Oil and coal plants that might otherwise be idle are then brought online to fill the deficit. Though this has so far succeeded in satisfying the demand for electricity in past winters, it has not come without a cost. Not surprisingly, wholesale prices for electricity rise significantly and oftentimes spike during these times of constrained resources.

One obvious solution to the problem would be to expand the capacity of the supply pipelines. However, plans to do so have been hampered by the reluctance of gas-fired

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<sup>4</sup> See page 33 of ISO presentation listed in footnote 3 for detail on periods of operation.

generators to provide potential pipeline builders with firm, long-term commitments to purchase the gas that would come through the lines. Having assured buyers for the end product reduces the financial risk of building these expensive projects, making it more likely that they end up being built and, additionally, are designed for the transport of larger quantities of natural gas. Even without firm commitments from the gas-fired generators, there is some movement on plans to bring additional pipeline capacity to New England, though it will be a few years before any projects are completed.

ISO New England is actively working on long-term solutions that address the constrained natural gas supply situation. This will involve revising the performance incentives in the Forward Capacity Market that ISO provides generators to assure operational availability. However, those incentives will not be implemented until the 2018/2019 time period. In the interim, ISO is making other market rule changes to help improve reliability in the region. In addition, for this upcoming winter, it has solicited bids from oil-fired and dual-fuel<sup>5</sup> generation plants for assured production if called upon by ISO to operate. Those with winning bids will need to have on hand adequate oil inventories in order to generate the amount of electricity promised in their bid. Low oil inventories were identified as a significant contributing factor to the difficulty ISO had last winter in providing reliable power to the region.

## Reports Received <sup>6</sup>

The Committee received the following reports during the past year that are required by statute to be submitted to it. They are attached to this report.

<u>Report</u>	<u>Submitted By</u>
Mercury Scrubber Installation	PSNH
Renewable Energy Fund	Public Utilities Commission
System Benefits Charge	Public Utilities Commission
Regional Greenhouse Gas Initiative	Public Utilities Commission & Dept. of Environmental Services

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<sup>5</sup> Able to burn either natural gas or oil.

<sup>6</sup> Other submittals to the Committee can be found on the [Committee's website](#).

**Public Service Company of New Hampshire**  
**Merrimack Station - Clean Air Project (CAP)**

June 2013 Legislative Update

2006 June	2007	2008	2009 March	2010	2011 June	2011 Sept	2012	2013 July 1
<i>The NH Legislature passed the scrubber law.</i>			<i>DES issued the scrubber construction permit.</i>		<i>Clean Air Project 84% complete</i>	<i>Clean Air Project 90% complete</i>	<i>Project Completion 06/21/12</i>	<i>Statutorily required completion date</i>

Background: In August 2005, a small group of interested organizations began to discuss creative approaches to reducing mercury emissions. Organizations and NH Legislators that developed the plan included:

- NH Department of Environmental Services
- NH Office of Energy & Planning
- NH Lakes Association
- NH Audubon Society
- PSNH
- Representative Larry Ross (R-Peterboro)
- Representative Naida Kaen (D-Lee)

HB1673 was passed in 2006 with, among others, the following also testifying in support of the legislation.

- Senator Maggie Hassan, co-sponsor
- Senator Peter Burling, co-sponsor
- NH Lakes Association
- Society for the Protection of NH Forests
- NH Audubon Society
- NH Lung Association
- BIA

Governor Lynch also provided testimony stressing his "strong support of the work of this committee and the work of New Hampshire citizens to address mercury pollution in New Hampshire." "Investing in air pollution controls has the potential to maximize mercury reductions and reduce sulfur pollution from our coal-fired power plants."

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