

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:)
Public Service Company of New Hampshire) **DE 04-177**
Transition/Default Service Rates)

Direct Prefiled Testimony

Of

Kenneth E. Traum
Assistant Consumer Advocate

Dated: December 6, 2004

OFFICE OF CONSUMER ADVOCATE

TESTIMONY

DE 04-177; PSNH Transition/Default Service Rates

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

2 A. My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of
3 Consumer Advocate (OCA), which is located at 21 S. Fruit Street, Suite 18, Concord, New
4 Hampshire 03301. I have been affiliated with the OCA for approximately 15 years. My resume
5 is included as Attachment 1 herein.

6 **Q. Please provide a brief summary of the Company's filing?**

7 A. Pending updates PSNH is requesting a Transition Service (TS) rate of 6.42cents/kwh
8 effective 2/01/05-1/31/06 for all customers not choosing competitive suppliers. On the
9 issue of whether TS for large customers should terminate as of 1/31/05 the Company
10 proposed it be continued until April, 2006 with the same pricing for small and large
11 customers.

12 The filing incorporates a continuation of an 11% return on PSNH's common equity
13 investment in its generation related rate base.

14 **Q. Please summarize the OCA's position?**

15 A. The OCA believes TS for large customers should end on 1/31/05 as currently envisioned,
16 with those 1,300 customers, to the extent they are not taking power from competitive
17 suppliers, placed on Default Service (DS) which would be priced differently than TS
18 rates because the kwh's generated by PSNH's owned generation would be allocated first
19 to TS customers with the remainder flowing to the benefit of DS customers as needed.

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21 On the cost of common equity the OCA believes 11.0% is too high.

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Q. PSNH is requesting the Commission extend the availability of the Transition Energy Service rate to larger customers (Group 2) beyond 2/1/05 until 4/30/06. What is the OCA’s position on such?

A. RSA 369-B:3 (B)(i) said TS for residential customers, street lighting customers and general delivery service rate G customers shall be available until at least 24 months after initial transition service day (2/01/06) or as extended by the Commission under RSA 374-F:3, v until 4/30/06.

In contrast RSA 369-B:3(c) uses a date of 2/01/05 for all other customers, again unless extended by the Commission under RSA 374-F:3,v.

So we must turn to 374-F:3, v. which is titled Universal Service. Beyond the core principle of ensuring universal service the statute states in (b) “Such transition service should be separate and distinct from default service.” And in (c) states: “Default service should be designed to provide a safety net and to assure universal access and system integrity.”

Based on that the OCA doesn’t deem it appropriate to extend the availability of TS to large customers as long as DS is there to act as a safety net and to assure universal access and system integrity.

Q. Assuming the Commission agrees that large customers who don’t choose should be

1 **put on DS after 1/31/05, how does the OCA propose DS be priced as compared to TS**
2 **recognizing that 369-B:3 IV, (b)(1)(A) and 369-B:3 IV, (b)(1)(B)(ii) uses the same**
3 **language for TS and DS pricing in that it “shall be PSNH’s actual, prudent, and**
4 **reasonable costs of providing such power, as approved by the Commission.”?**

5 **A.** Accepting that the output from PSNH’s owned generation generally costs less than the
6 spot market price, the question is should those PSNH generated kwh’s and respective
7 costs be assigned first to meet TS needs or proportionality to TS and DS?

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9 The OCA believes the RSA doesn’t tell us how that assignment is to be accomplished,
10 just the costs, so one must look further. The Agreement to Settle PSNH Restructuring
11 conformed as of 6/23/00 and approved by the Commission, states on lines 945-947,
12 “However, during the period when Transition Service is available, in no event shall the
13 price of Default Service to the customer be less than the Transition Service prices, unless
14 ordered by the PUC.” Conversely this language envisions that Transition Service will be
15 priced equal to or below Default Service.

16 Thus the plain language of the Restructuring Settlement obviously anticipated different
17 pricing methodologies and hence different procurement methods, for TS and DS, or
18 otherwise this language would have been unnecessary.

19

20 The OCA proposes a pricing mechanism that would assign kwh’s generated by PSNH
21 owned units first to meet TS load then any remaining would go to DS. Any additional
22 kwh’s needed for TS or DS would be acquired by PSNH as it does now through the
23 wholesale power markets. So PSNH TS customers would pay rates based on PSNH’s
24 actual, prudent, and reasonable costs of providing such power. Then DS customer’s rates
25 would be similarly established, but would use a different resource mix.

1 **Q. Is there any precedent for pricing TS differently for small versus large customers?**

2 A. Yes. For the year February 2003-January 2004 the Legislature set the TS rate for
3 small customers at 4.60cents/kwh and for large customers at PSNH's "actual,
4 prudent, and reasonable costs" which this Commission determined was 4.67cents.

5

6 **Q. Are the provider of standard service prices for the other NH electric utilities
7 different for small and large customers?**

8 A. Yes. However in those 3 utilities the power is acquired through a competitive bid process
9 for each category not from utility owned generation.

10

11 **Q. If TS to large customers was terminated on January 31, 2005 as currently
12 envisioned, and TS/DS were priced so that PSNH owned generation were provided
13 first to meet TS customer demand with only the remainder going to DS, what would
14 the respective TS and DS rates in the September 24, 2004 filing have been?**

15 A. The OCA asked PSNH to quantify those resulting TS and DS rates in OCA-003
16 (Attachment 2). Instead of a projected 6.14cent/kwh for all customers, the rate would be
17 6.64cent/kwh for the 1,300 large customers and 5.82cent/kwh for the approximately,
18 400,000 other customers.

19

20 **Q. Since PSNH updated the requested rate to 6.42cents/kwh on 11/30/04 how would
21 that change the large and small customer rates?**

22 A. I assume they would each increase approximately .28cents/kwh to 6.92cents and
23 6.10cents/kwh respectively.

24

25 **Q. Although it hasn't occurred yet is the OCA concerned that PSNH's proposal on
26 TS/DS for large customers would open the door for gaming by savvy suppliers and**

1 **customers requiring a subsidization from all other customers by not covering**
2 **PSNH's actual, prudent, and reasonable costs of providing such power to those**
3 **gaming customers?**

4 A. Yes. Currently the Commission sets a TS rate for a year with the potential for a change
5 part way through the year. While this makes sense for those customers expected to take
6 power for the year, it doesn't for those who might game the structure.

7 Based on PSNH's September 24th filing, the proposed TS rate is 6.14cents/kwh.

8 However looking at Mr. Baumann's Attachment 2, PSNH's forecasted monthly cost of
9 power varies significantly from 5.78 to 6.56cents/kwh depending on the month. If a
10 savvy supplier/customer structured an agreement such that the customer would take
11 power from PSNH only in the high cost months but only pay the average rate and from
12 the supplier in the lower cost months, that customer would not be covering PSNH's
13 "actual, prudent, and reasonable costs of providing such power."

14 **Q. Please provide an example of such.**

15 A. Referring to Attachment RAB-2, page 1, the gaming customer takes TS power only in the
16 months of March, April, May 2005 and January 2006, respectively. If that customer uses
17 1,000,000 kwh each month, then PSNH under recovers its costs during those 4 months by
18 approximately \$12,000.

19 If all large customers gamed the system this way, the under recovery could approximate
20 \$3 million for the period.

21

22 **Q. Assuming PSNH is entitled to recovery of those costs how would they be recovered?**

23 A. The responsibility would probably be shifted to stranded costs for recovery from all
24 customers. Again showing that the specific gaming customers wouldn't be covering
25 "PSNH's actual, prudent, and reasonable costs of providing such power."

1

2 **Q. How realistic is a “gaming” scenario?**

3 A. It is the OCA’s understanding that in our neighboring state of Maine about 90% of the
4 large customer load is served by competitive suppliers. If those or other potential
5 suppliers saw a way to legitimately get into the NH market by gaming it to their specific
6 customers benefit, who could criticize them?

7 And closer to home, Granite State Electric Co. currently has over 50 large customers
8 served by competitive suppliers representing 88% of the large customer load. Those
9 customers cannot return to TS but to DS which is currently priced monthly and is
10 consistently higher than TS.

11

12 **Q. Whether the Commission does or does not accept the OCA’s proposal to have a
13 separately priced DS for all large customers, how should the threat of gaming be
14 addressed?**

15 A. To avoid the gaming threat, if a large customer goes to a competitive supplier they cannot
16 return to TS (if available to their customer class) for a pre-established period of time if
17 ever and instead would go to a DS alternative, priced monthly along the line previously
18 proposed by the OCA. And consistent with the Unutil filing in DE 04-197 (Petition page
19 5) during the period the customer was on a fixed TS or DS rate the billings would be
20 recomputed as though the customer had been billed monthly, and any difference would
21 be credited/charged to the customer on their next PSNH bill.

22

23 **Q. Under either OCA proposal would DS for large customers still be priced below the
24 spot market prices?**

25 A. Assuming PSNH’s owned generation continues to be priced below market, yes, because
26 some PSNH generation would still be serving DS load for large customers.

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Q. Since the Stranded Cost charge for the Residential class is higher than it is for the large customers, does that support the concept of applying PSNH’s owned generation output first to those customers paying the higher SCC?

A. The OCA believes so. After all the SCC came about in order to restructure the generation side of the electric utility industry and provide customer choice, those who pay more stranded costs should benefit accordingly. The OCA understands the SCRC for the residential class is on average 0.5cents/kwh greater than for the large general service class.

Q. Would there be any additional administrative costs to PSNH if the Commission sets different TS/DS rates for large and small customers?

A. According to PSNH’s response to BIA-002 (Attachment 3), no.

Q. Does the Residential Ratepayers Advisory Board agree with the position taken in this testimony?

A. Yes.

Q. The other issue you raised at the start of your testimony was PSNH’s request to continue an 11.0% return on its common equity investment in its generation related rate base of approximately \$211 million. Why does the OCA believe 11.0% is too high?

A. As I stated when I addressed the cost of equity in PSNH’s recent T&D rate case, DE 03-200, I am not presenting myself as a cost of equity expert in this area and since the OCA didn’t retain an outside expert in this case, I will point out a

1 number of items, which should provide a benchmark for PSNH cost of equity:

2 1.) In the 2003 docket 03-07-02, the Connecticut Commission found the cost
3 of common equity for PSNH's sister company CL&P to be 9.85%

4 2.) In DT 02-110, Order #24,265 dated January 16, 2004 for Verizon New
5 Hampshire this Commission found Verizon's cost of equity for retail activities to be
6 9.82%. The 9.82% was slightly higher than the 9.48% ultimately recommended by the
7 OCA and 9.58% by NHPUC Staff. While I have included Verizon retail in this proxy, I
8 believe they are somewhat riskier than PSNH's operations involved in this proceeding
9 due to potential competition from cable, cell phones, VOIP, BPL, etc. While PSNH's
10 only generation related risk relates to imprudence.

11 3.) In DT 01-221, Order #24,281, dated February 20, 2004 for Kearsarge
12 Telephone Company, a subsidiary of TD&S this Commission found the cost of equity to
13 be 8.89%. This company maybe less risky than Verizon due to the generally rural, and
14 thus less attractive nature of their franchise territory to potential competitors.

15 4.) In PSNH's recently settled T&D rate case the NHPUC Staff's prefiled
16 testimony produced a cost of equity of 9.3%. Because of the guaranteed nature of
17 recovery of generation costs, absent imprudentcy, I believe PSNH's generation risk is
18 certainly no higher than its T&D risk, and probably lower.

19 5.) To the extent the TS rate doesn't cover all of PSNH's approved costs, the
20 under(over) recovery will become stranded costs. Per the Restructuring Settlement
21 Agreement, stranded costs earn a stipulated rate of return earning 8% on equity which
22 compromises 40% of the Capital structure.

23 The simple average of these 5 figures is 9.17%.

24

25 **Q. If the Commission were to use 9.17% versus the 11.0% requested by**
26 **PSNH, what impact would it have?**

1 It would reduce PSNH's revenue requirements by approximately \$3,250,000 for
2 the 12 months.

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

4 **A. Yes.**