

## **Customer Savings in SB 221 and the PSNH Settlement**

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### **Question: How are the savings for PSNH default service customers achieved?**

In the first five (5) years alone, customers are estimated to save about \$380 million. This is due to PSNH lost earnings on generation assets from divesting (selling) the assets, PSNH agreeing to not raise distribution rates on all customers for at least the next two (2) years, and from a write-off of expected earnings. It is also due to the value of finally moving to full competition in PSNH's service territory. There are also significant customer savings that extend well beyond the first (5) years, though those are more difficult to estimate. The customer savings means millions more in the pockets of residential and business customers, helping our economy.

### **Question: Why are utilities not like business that suffer from bad investments?**

Utilities are not businesses in the traditional sense. Instead they are regulated monopolies with an obligation to serve all customers and whose profits, while regulated, are also guaranteed by the Public Utilities Commission (PUC). This profit is based upon the PUC determining that the investments of a utility are prudent and therefore eligible for receipt of guaranteed profit. In PSNH's case this guaranteed profit is currently set by the PUC at 9.81% on their eligible investments.

### **Question: What is Divestiture?**

It's the selling of generation assets. When states have deregulated the electric industry and move to competition, traditional utilities (which have both generated and distributed electricity) have sold their generating assets to competitive electricity suppliers, and instead become simply distribution companies. In such a sale, the market determines the price of the assets. These utility assets may sell above or below (depending upon the market) the book value of the utility assets. All dollars received from the asset sale go to the benefit of customers through a reduction in stranded costs.

### **Question: What are Stranded Costs?**

If assets sell below book value a utility will not recover its prudent investment, resulting in what is known as a stranded cost. Utility customers are responsible for paying stranded costs because of a long history of legal precedent including the "takings clause" of the 5<sup>th</sup> Amendment of the United States Constitution. But stranded costs are not new costs to customers. Stranded costs should be viewed as costs customers were already paying in their regulated electricity rates which contained the guaranteed profit of (9.81% in PSNH's case) approved by a PUC.

### **Question: What is Securitization?**

Securitization is a refinancing of a utility's stranded costs at a much lower interest rate. Investors buy securitized bonds at very low interest rates, such as 3%. Savings are generated because a utility no longer receives its guaranteed profit (PSNH 9.81%) because it no longer owns generation plants. These bonds are not a state loan guarantee but rather a guarantee of customer repayment. Securitization was used successfully in the Settlement reached with PSNH in 2000.

**Question: Can we quantify the Customer Savings in the Proposed Settlement?**

1. PSNH immediate write-off from shareholders
  - a. PSNH and its shareholders immediately writes-off recovery of \$25 million of expected revenue. This \$25 million will directly reduce stranded costs.
  - b. **Value of Customer Savings** **\$25 million**
  
2. PSNH divests (sells) its generating plants
  - a. Sale of generating plants means shareholders do not receive guaranteed 9.81% profit on the generation assets sold and no longer owned by PSNH. This amount is approximately \$50 million per year in lost earnings, and over five (5) years = \$250 million.
  - b. **Value of Customer Savings** **\$250 million**
  
3. PSNH agrees to distribution Rate Case stay-out for at least two (2) years
  - a. PSNH could file for a rate case on July 1 to increase the distribution and delivery portion of its rates, affecting all distribution customers, including those who have migrated to a competitive energy provider. PSNH agrees not to do this for at least two (2) years, achieving rate stability and customer savings. This will produce customer savings of approximately \$69 million.
  - b. **Value of Customer Savings** **\$69 Million**
  
4. **TOTAL VALUE OF CUSTOMER SAVINGS FROM LOST REVENUE DUE SHAREHOLDERS OVER 5 YEARS** **\$344 Million**
  
5. Other Savings—The Value of Competition
  - a. By divesting the generation assets and moving to a competitive procurement of default service (customers who don't make a choice of energy provider), the transition to full competition will finally be complete. Economic analysis points to an estimated \$35 million in customer savings due to the value of competition and downward pressure on prices.
  - b. **TOTAL CUSTOMER SAVINGS over 5 years** **\$379 Million**

**Question: How much are customers who receive PSNH default energy service estimated to save?**

**All customers who purchase PSNH default energy service will save significantly under the proposed settlement agreement through the implementation of divestiture and securitization.**

<b>Rate Class</b>	<b>Net rate reduction</b>	<b>Typical usage</b>	<b>Monthly <i>savings</i> from settlement</b>
R – Residential	1.08 cents/kWh	650 kWh/mo.	<b>\$7</b>
G – Small Comm.	1.12 cents/kWh	2,500 kWh/mo.	<b>\$28</b>
GV – Med. Comm. & Industrial	1.25 cents/kWh	100,000 kWh/mo.	<b>\$1,250</b>
LG – Large Comm. & Industrial	1.66 cents/kWh	900,000 kWh/mo.	<b>\$14,940</b>
Lighting	1.21 cents/kWh	3,300 kWh/mo.	<b>\$40</b>

These savings result from comparing the settlement proposal to the costs to default service customers under the status quo, including the increased costs resulting from the full recovery of the scrubber costs in late 2015. Absent the settlement and securitization, the scrubber costs alone are approximately 1.9 cents/kWh, or \$12.35 per month for the average residential customer taking default service. As shown above, divestiture and securitization under the terms of the proposed settlement agreement are estimated to save the average residential customer approximately \$7.00 per month versus the status quo. SB221 is necessary to achieve these savings.

These estimated savings are for default service customers, meaning those customers who purchase their electricity from PSNH rather than from a competitive supplier. All customer classes have migrated back and forth between PSNH electric service and competitive suppliers over the last year. The migration rate (% of load that is with a competitive supplier) as of April 2015 was approximately 40% for all customers, meaning that 60% remained on default service; approximately 20% of the largest customers (rate LG) remained with PSNH default service in the month of March (down from 30% in January).

## How will Stranded Costs be paid by Customers?

In response to concerns about rate impacts on large users, the Proposed Settlement Agreement that will be filed at the PUC will propose to allocate the stranded costs resulting from divestiture and securitization according to the percentages below. This “rate design” proposal mitigates cost impacts to large businesses while preserving the significant savings for residential and small businesses customers that result from divestiture and securitization.

Rate class	Proposed % allocation of revenue requirement	Estimated Stranded Cost Charge impact (cents/kWh)		Scrubber costs without divestiture and securitization (excluding all other costs of PSNH generation) (cents/kWh)
		Settlement terms	PUC-ordered divestiture	Status quo - No settlement
Residential	48.75%	0.82	0.82	1.9
Rate G	25.00%	0.78	0.82	1.9
Rate GV	20.00%	0.65	0.82	1.9
Rate LG	5.75%	0.24	0.82	1.9
Lighting	0.50%	0.69	0.82	1.9
<b>Average across all classes</b>		<b>0.68 cents/kWh</b>	<b>0.82 cents/kWh</b>	<b>1.9* cents/kWh</b>

\*Note that the 1.9 cents/kWh represents the scrubber costs (a total of over \$500 million) that will be included in default service rates in 2015 if there is not a settlement that provides for divestiture and securitization. Customers have been able to avoid this cost by moving to a competitive supplier, but only approximately 40% of PSNH customers are currently doing so. However, if more customers leave default service, this cost per kWh will increase as the costs must be recovered from a smaller number of customers (referred to by some as a “death spiral.”) Because the scrubber costs are so high, all default service customers (largely residential and small businesses customers, but including some from each rate class) are better off over time with the proposed settlement vs. the status quo.

Note that the estimates above do not include any over-market costs resulting from the long-term contract between PSNH and Burgess Biomass generation plant in Berlin; those costs will be calculated each year and are currently estimated to be in the range of 1/10 (one tenth) of a cent (or 1 mil). The rate design proposed in the settlement agreement to reduce costs to large customers will be applied to these over-market costs, which means that the rate impact of the over-market costs of the Burgess contract could be in the range of \$0.0002 to \$0.0003 for large customers.

**Question: What are the Litigation Risks if this Settlement is not Implemented?**

\*\*\*Litigation will take years to resolve. During the entirety of litigation, PSNH earns its guaranteed profit of 9.81%, and customer savings don't occur. Indeed, rates actually go up significantly for default energy service customers (see below).

\*\*\*Litigation outcomes are very risky for customers. NH has a poor track record in litigation with PSNH. In the 1980s, litigation in Bankruptcy Court resulted in a Rate Agreement and 7 years of 5.5% electricity price hikes that led to some of the highest rates in the nation. In the 1990s the fight over stranded costs led to several years of litigation and continued high rates. It was a settlement that finally solved that situation.

\*\*\*In this case ongoing litigation will not only involve the "takings clause" as an issue but also will involve the legislative mandate in 2006 (HB1673) to build the scrubber on the Merrimack generating plant in Bow. The cost of the scrubber represents much of PSNH's stranded costs and PSNH is entitled to recover all prudent costs of building the scrubber per RSA 125-O.

\*\*\*The risk of litigation for customers is real and significant. Rates will go up during litigation and customers also lose tens of millions in savings each year that litigation drags on. Overall, customers would lose an estimated \$344 million of savings that come from lost revenue from PSNH shareholders----rejecting this settlement in favor of litigation represents a Huge Gamble.

**Question: What happens if SB 221 does not pass, or is delayed?**

\*\*\*If SB 221 does not pass, or is delayed, it is very likely that the PUC immediately issues an Order in the docket concerning the scrubber, the full costs of the scrubber will immediately go into default energy service rates, and default energy service rates will increase by almost 1 cent/kWh. In short, delay means rates go up. Furthermore, litigation will ensue, the settlement will not likely be implemented, and the significant customer savings described above will likely disappear and never be replicated.

