The importance of the PSNH divestiture debate

The latest attempt to control New Hampshire's high energy costs appears in House Bill 1238, which requires Public Service of New Hampshire to divest itself of it its power plants.

With the fourth-highest energy costs in the nation, New Hampshire businesses face increasing pressure to find a way to purchase the lowest-cost energy available in the marketplace so that they can compete in a national and global economy. PSNH's high energy service rates - currently about 30 percent above rates in the regional electric market - have sparked debate over whether PSNH should continue to own generation assets/power plants, as opposed to just owning distribution assets like poles and wires.

The recent addition of $430 million worth of air pollution controls at Merrimack Station, with the possibility of another $112 million of water pollution controls being required there within the next few years, has added fuel to the fire.

While debate over divestiture occurred a decade ago and resulted in the sale of Seabrook Station, the stakes are arguably higher now, as large commercial/industrial customers leave PSNH energy service, creating a dwindling base of smaller ratepayers to cover higher costs of producing power.

PSNH was unsuccessful last year in urging regulators to add a "non-bypassable charge" to all PSNH customer bills to recover these higher production costs, but this issue is likely to arise again in the Legislature. The result could be higher electric bills for many business owners, even if they purchase power from generators other than PSNH.

How did we get here? More than a decade ago, the Legislature decided to separate generation from distribution services and to give customers a choice on whether to buy their power from the competitive market (non-utility generators) or remain with utility service.

Requiring utilities to divest their generation assets was an important aspect of this move toward "reducing costs for all consumers by harnessing the power of competitive markets" because ratepayers would otherwise be at risk for plant investments, plus a reasonable rate of return for utility investors (currently about 9 percent). Every other state in New England, except Vermont, has required its utilities to divest generation assets as part of the transition to a competitive energy market.

Up to the Legislature

However, the New Hampshire Legislature allowed PSNH to retain ownership of most of its power plants because, at the time, its energy costs were below market rates.

Ratepayer savings were short-lived, though, as PSNH's costs grew to exceed market prices offered by competitive electricity generators. This triggered many PSNH customers that were able to take advantage of competitive markets to "migrate" to other energy service providers. Today, more than three-quarters of PSNH's large customers and more than half of its medium-sized customers have migrated to other power producers.

While fewer alternatives are available to residential and small commercial customers, a Manchester-based firm, Resident Power now offers residential customers the opportunity to take advantage of the competitive market. This could further erode the PSNH customer base at a time of increasing costs for remaining customers.

PSNH resisted divestiture when it was last debated in the Legislature, and the company recently stated that it still opposes it, although for different reasons.

Last year, PSNH provided a preview of its preferred approach of requiring customers that have migrated from PSNH default energy service to pay a portion of its fixed generation costs even if they were not using PSNH-produced power. In a proceeding referred to as the "Migration Docket," the Public Utilities Commission rejected this "non-bypassable charge" as "unfair cost shifting to customers that have taken advantage of competitive supply."

While other parties to the proceeding urged a divestiture solution, the PUC decided that current law only allows regulatory approval of divestiture in the event that PSNH proposes it.

According to the PUC, only the Legislature can require PSNH to divest its power plants.

The first legislative hearing on House Bill 1238, held Feb. 2, picked up the debate started more than 10 years ago on whether to do just that. Economic analyses, cost comparisons and forecasts, and review of divestitures throughout New England, including those of PSNH affiliates, would certainly inform the debate.

To the extent that alternatives like a "non-bypassable charge" are reviewed to allow PSNH to retain power plant ownership while shifting costs to migrating ratepayers, effects on New Hampshire's business climate should be a key consideration.

For large customers like energy-intensive manufacturers that have migrated to other generation sources, paying an additional charge to cover PSNH's costs of generating power that these large customers do not use will create obvious fairness and economic issues. In addition to affecting customers' individual bottom lines, New Hampshire's economy as a whole may be affected.

These are serious consequences that must be considered as House Bill 1238 and other issues related to PSNH's continued ownership of generation assets are examined.

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