



# Memo

**Subject:** Report of Economic Impact of New Hampshire Participation in Regional Greenhouse Gas Initiative

**Date:** October 31, 2007

**From:** Public Service of New Hampshire

**To:** Professor Ross Gittel  
Mr. Matt Magnusson

As discussed with Joanne Morin, PSNH is providing the following comments regarding your draft report.

We would request that your current work be expanded to consider additional scenarios to determine the sensitivity of the assumptions presently included.

Specifically,

1. Complete a scenario(s) that reflects generators purchasing allowances on the secondary market at a price above the auction price. This condition would result in customer cost being greater than NH's auction revenue. This analysis would assist stakeholders in understanding how higher costs in the secondary market would impact the overall economics presented in your current scenario.
2. Complete a scenario(s) that reflects a potential real world scenario with fluctuating and thus skewed distribution of allowance prices. At present, \$2 per allowance has been assigned to the first 3 years of the program. A scenario that reflects an elevated price with end of calendar years or end of compliance periods would again assist stakeholders in understanding how intermittent elevated costs would impact the overall economics presented in your current scenario. This scenario would represent insufficient or no success by a generator in a regional auction, which would then require supplemental higher-cost purchases in a secondary market.

Also, worthy of additional discussion, and modeled as best possible, is appropriate treatment of PSNH's Energy Service as a regulated utility and a requirement to include all actual cost-of-service expenses. This issue brings into question the value of a 3 year compliance period with PSNH's, a regulated utility, annual requirement to include all generating costs in our annual rate development and reconciliation. Of further concern is the risk associated with no availability of allowances on an annual basis which could result in curtailed operation of the PSNH fleet. The current model reflects no generation curtailment and the associated cost to PSNH customers.

The following comments reflect observations regarding the energy efficiency calculations.

The first year of the program reflects energy efficiency savings presuming an annual investment associated with the first year auction revenue. To obtain auction funds, determine the amount of the funds, identify recipients and distribute the funds, and then, have the projects completed will take a significant period of time. We believe it is more accurate to reflect the energy efficient savings beginning in the following year from the receipt of auction revenue. A quarterly auction and quarterly auction proceeds will delay the funds even longer making even a second year benefit challenging.

Also, there appears to be no recognition that energy efficient projects can and should be categorized in different tiers of cost-effectiveness. As auction revenues grow faster and more significantly, there is less likelihood that all of the dollars can be as-effectively and as-quickly dispersed. It would be appropriate to tier projects and identify an associated discount with less effective opportunities.

The report has made a number of simplifying assumptions that could certainly be further developed, if not quantitatively, at a minimum, directionally, to best consider those areas of "un-expected" results as presented by NHDES and the NHPUC. This report is consistent with the RGGI working group and the NH participants' optimism that the program will develop as planned. It will be important during upcoming discussions that NH stakeholders consider the consequence if the program does not unfold as planned. Hopefully, these additional scenarios should assist in that effort

Finally, I will note that on page 22 of the report, Schiller unit 5 should be listed a wood-fired plant.

We look forward to additional discussion regarding RGGI and the best approach for NH and its electric customers.

Thank you for your attention to these additional inquires and comments.

Lynn Tillotson  
PSNH Generation

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