Exhibit NSTAR-HCL

NSTAR Electric

Direct Testimony of Henry C. LaMontagne

Exhibit NSTAR-HCL

D.T.E. 02-80

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

2 A. My name is Henry C. LaMontagne. My business address is 800 Boylston Street,
3 Boston, Massachusetts 02199.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Director of Regulatory Policy and Rates for the regulated operating companies
6 of NSTAR. In this capacity, I am responsible for pricing and rate design activities for
7 Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company
8 ("Cambridge"), Commonwealth Electric Company ("Commonwealth") (collectively,
9 "NSTAR Electric" or the "Companies") and NSTAR Gas Company.

10 **Q. Please describe your education and professional background.**

11 A. I graduated from the University of Massachusetts - Dartmouth in 1968 with a
12 Bachelor of Science degree in Electrical Engineering. Upon graduation, I served two
13 years of military duty, after which I joined the Engineering Department of
14 COM/Energy Services Company ("COM/Energy") in October 1970. In March 1973,
15 I became a Rate Analyst with the Rate Department of COM/Energy where my
16 primary responsibilities were to assist in the formulation and administration of gas
17 and electric tariffs and special contracts for the operating subsidiaries of the
18 Commonwealth Energy System. Since then, I have held various positions in the Rate
19 Department progressing to Manager – Rate Design in March 1987. I held that

1 position in the Commonwealth Energy System until its merger with BEC Energy was
2 consummated in August 1999, whereupon I was named to my present position.

3 **Q. Please describe your present responsibilities.**

4 A. As Director of Regulatory Policy and Rates, I am responsible for directing the
5 preparation and design of rate schedules and the pricing of special contracts for
6 NSTAR Electric. In addition, I am responsible for directing the preparation of
7 embedded and marginal cost allocation studies and other special cost studies as
8 required to support the pricing and rate design function.

9 **Q. Have you previously testified in any formal hearings before regulatory bodies?**

10 A. Yes, I have presented testimony before the Department of Telecommunications and
11 Energy (the "Department") and the Federal Energy Regulatory Commission
12 ("FERC") on numerous occasions. I have most recently presented testimony before
13 the Department on behalf of Boston Edison in D.T.E. 01-78, its most recent
14 Transition Charge Reconciliation proceeding. I have also presented testimony on
15 behalf of Cambridge and Commonwealth in their most recent Transition Charge
16 Reconciliation proceeding, D.T.E. 01-79. Previously, I have presented testimony for
17 Cambridge, Commonwealth and Canal Electric Company in their comprehensive
18 electric restructuring plan (the "Restructuring Plan") proceeding, D.P.U./D.T.E. 97-
19 111 (1998) and their divestiture proceeding, D.T.E. 98-78/83 (1998). Also
20 previously, I have presented testimony on behalf of Cambridge, Commonwealth and
21 Commonwealth Gas Company in general rate proceedings before the Department in

1 Cambridge Electric Light Company, D.P.U. 94/101/95-36 (1995), Commonwealth
2 Gas Company, D.P.U. 95-102 (1995), and Commonwealth Electric Company, D.P.U.
3 90-331 (1990). In addition, I have presented testimony before the FERC concerning
4 transmission service to the Town of Belmont, in FERC Docket Nos. ER94-1409 and
5 EL94-88.

6 **Q. What is the purpose of your testimony?**

7 A. My testimony will describe the proposed changes to rates for NSTAR Electric
8 resulting from reconciling each company's Transition Charge for the year 2002 as
9 well as other rate changes required to implement the provisions of recent
10 reconciliation settlement agreements approved by the Department. My testimony
11 will describe how the reconciled Transition Charges will be implemented for each
12 company and what their impact will be on customers' bills.

13 **Q. When will the proposed rate changes take effect?**

14 A. The new charges are proposed to become effective on January 1, 2003.

15 **Q. Please describe the format of your testimony and exhibits.**

16 A. This year, NSTAR Electric is submitting its reconciliation filing for the individual
17 companies on a consolidated basis for review under a single docket. I will use the
18 following convention in this testimony; the term "NSTAR Electric" will refer to all
19 three companies in cases where there is common treatment of a particular issue. If
20 there are issues that are unique to a particular company then I will specify it by a
21 company name. Supporting schedules are identified by a three-letter designator

1 denoting the Company; "BEC" for Boston Edison, "CAM" for Cambridge and
2 "COM" for Commonwealth. My testimony below follows a similar convention.
3 When I am discussing items common to all three companies, I use the term NSTAR
4 Electric and will refer to all three exhibits instead of a specific company name, (e.g.,
5 the HCL-1 Exhibits to refer to all Exhibits BEC-HCL-1, CAM-HCL-1 and COM-
6 HCL-1). In cases where I am discussing things unique to a particular company, I will
7 use the company name and will refer to an exhibit using that company's specific
8 identifier (e.g., Exhibit BEC-HCL-1).

9 **Q. What exhibits are you sponsoring in your testimony?**

10 A. I am sponsoring eight exhibits for each company as well as this testimony,
11 Exhibit NSTAR-HCL. The HCL-1 Exhibits are the redlined versions of the proposed
12 tariffs. The HCL-2 Exhibits set forth summary tables of revenue by rate schedule
13 that result from implementing the proposed rate changes. The HCL-3 Exhibits set
14 forth the pricing models and revenue proofs used to design the proposed rates. The
15 HCL-4 Exhibits demonstrate the percentage rate reduction from inflation-adjusted
16 rates at the individual bill level. The HCL-5 Exhibits set forth summaries of
17 unbundled rate components in effect for each year since the Retail Access Date
18 ("RAD") and projected for the future. The HCL-6 Exhibits set forth the development
19 of the Transition Rate Adjustments. The HCL-7 Exhibits set forth the derivation of
20 the inflation factor. Finally, the HCL-8 Exhibits set forth typical bill calculations that
21 compare inflation-adjusted rates to proposed rates and current rates to proposed rates.

1 **Q. What rate changes are the Companies proposing?**

2 A. In addition to proposed changes in the Transition Charge and the Transition
3 Adjustment Charges, the Companies are also proposing new rates for transmission,
4 Renewables, Standard Offer Service and Default Service Adjustment. Energy
5 Efficiency charges are remaining at 0.250 cents per kilowatt-hour ("kWh") reflecting
6 the recent amendment to the Restructuring Act enacted in the past year. Also, certain
7 rate adjustments are made to distribution rate components in order to preserve the
8 required 15 percent reduction from inflation-adjusted rates on a rate-class basis and
9 to provide at least a 14 percent reduction to all customers as directed by the
10 Department. The changes to the transmission rates reflect each company's latest
11 calculation of annual prices under its FERC Transmission Tariff as set forth in the
12 testimony of Joseph F. Lanzel. The change in the Renewables Charge from 0.075
13 cents/kWh to 0.050 cents/kWh is as mandated by the Restructuring Act and the
14 approved restructuring plans of the Companies. The rate for Standard Offer Service
15 for Cambridge and Commonwealth is set at 4.7 cents/kWh in conformance with their
16 approved Restructuring Plan. Boston Edison's rate for Standard Offer Service
17 reflects the 4.7 cents/kWh charge plus a Standard Offer surcharge of 0.25 cents/kWh,
18 which maintains the existing rate for Standard Offer Service.

19 **Q. Have you provided proposed tariffs that reflect the rate changes described**
20 **above?**

21 A. Yes, the proposed tariffs have been filed with the cover letter to this filing. The
22 HCL-1 Exhibits are the redlined versions of the Companies' proposed rate schedules.

Q. Have you provided a summary of the revenues produced by the proposed rates?

A. Yes. Page 1 of the HCL-2 Exhibits set forth a summary of the proposed revenues for each rate class and compares such revenues with the corresponding inflation-adjusted revenues for each rate class. This page also documents the components of each rate schedule that each of the Companies is proposing to change with this filing. Page 2 of this exhibit sets forth a detailed report of revenue by unbundled rate component for each rate schedule. Page 3 sets forth the same information as page 2, except that the information is stated in cents/kWh. Page 4 sets forth a comparison of distribution revenue by rate class for pre-retail access rates and proposed rates.

Boston Edison

Q. What changes to Boston Edison's Transition Charges are you proposing as a result of reconciliation for 2002?

A. In his testimony, Mr. Lanzel supports an average Transition Charge for the year 2003 of 1.840 cents/kWh for Boston Edison. This represents the maximum Transition Charge Boston Edison can implement while maintaining at least a 15 percent rate reduction for all rate classes. As a result, Boston Edison is projected to have an uncollected balance of transition costs at the end of year 2003. This charge compares to the current Transition Charge for 2002 of 1.628 cents per kWh. For reference, the initial Transition Charge included in the Restructuring Settlement was 3.510 cents per kWh, and the amount originally scheduled in the Restructuring Settlement for 2003 was 2.523 cents per kWh.

Q. How have you reflected the change to the Transition Charges in Boston Edison's rates?

A. First, I assign the same average Transition Charge rate to each rate class, with the exception of Boston Edison's Rate WR, which I will discuss separately. To this average Transition Charge, I add a class-specific Transition Charge Adjustment, pursuant to Section 2.4 of the terms of the settlement agreement entered into between Boston Edison and the Attorney General in D.T.E. 00-82, approved by the Department on November 16, 2001. The methodology for the calculation of the Transition Charge adjustment for each class for the year 2003 is set forth in Exhibit BEC-HCL-6. The purpose of the adjustment is to ensure that the reconciliation of the Transition Charge maintains a uniform recovery of the average transition charge from each customer class.

Q. How have you reflected the Transition Rate Adjustment for Rate T-1?

A. In the rates implemented for year 2002, the Transition Charge Adjustment calculated for Rate T-1 was 3.072 cents/kWh. This represented the adjustment for the years 1998 through 2000. This amount of adjustment was too great to implement in one year while maintaining the mandated 15 percent rate reduction for this rate class. As a result, Boston Edison implemented an adjustment equal to 25 percent of the calculated adjustment. For 2003, Boston Edison has added an additional 25 percent of the 1998-2000 adjustment to the adjustment calculated for year 2001. The result is a Transition Adjustment of 0.498 cents per kWh applicable in year 2003 (i.e., – 0.269 + (3.072*0.25) = 0.498). The remaining portion of the 1998-2000 adjustment

will be implemented in future years as additional "headroom" becomes available. To ensure its ability to accomplish this, Boston Edison has modeled its proposed Transition Charges based upon updated billing quantities that are more representative of the usage characteristics of this rate class. As a result, potential future mismatches between average transition charges and actual transition collections will be minimized.

Q. Please explain how the Transition Charge has been set for Boston Edison's Rate WR.

A. As in previous years, the WR rate class has been charged a single "Delivery Services" charge without a separately stated Transition Charge, Transmission Charge or Distribution Charge. The Delivery Services charge has been set at a level designed to ensure that the MWRA, the sole member of the WR rate class, receives a minimum 15 percent rate reduction against inflation-adjusted, pre-restructuring rates for so long as the MWRA receives Standard Offer Service. The MWRA elected to not receive Standard Offer Service after October 31, 2001. As a result, Boston Edison filed revised Rate WR as part of a Settlement Agreement that was approved by the Department in D.T.E 01-108 on May 31, 2002. The revised rate includes a Transition Cost Adjustment that is calculated in accordance with the provisions of the Settlement Agreement. The calculation of the Rate WR Transition Cost Adjustment is set forth in Exhibit BEC-HCL-3, page 11A.

Q. What rate changes are proposed for Transmission rates for Boston Edison?

A. The proposed average transmission rate for Boston Edison reflects an increase of 0.090 cents per kWh resulting in a total average rate of 0.751 cents per kWh. The current average transmission rate is 0.661 cents per kWh. The current average transmission charges for individual rate schedules are adjusted to reflect the ratio of the proposed transmission rate to the current transmission rate (i.e., 0.751/0.661 = 1.136). Mr. Lanzel describes the development of the revised average Transmission rate in his testimony.

Q. How have you calculated the proposed rate for Standard Offer Service?

A. The rate for Standard Offer Service for 2002 as established in the Restructuring Settlement is 4.7 cents per kWh. In addition, Boston Edison may collect a Standard Offer Surcharge in accordance with the Restructuring Settlement and a later settlement agreement entered into between Boston Edison and the Division of Energy Resources on November 30, 1999, and approved by the Department in D.T.E. 98-111-A. In accordance with those settlements, Boston Edison proposes a surcharge of 0.25 cents per kWh, or a total Standard Offer Rate of 4.95 cents per kWh, the same level as that is presently in effect.

Cambridge Electric

Q. What changes to the Transition Charges are you proposing for Cambridge as a result of reconciliation for 2002?

A. In his testimony, Mr. Lanzel supports a Transition Charge for the year 2003 of 0.200 cents per kWh for Cambridge. These charges compare to the current Transition

Charge of 1.139 cents per kWh for Cambridge. The initial Transition Charge included in Cambridge's Plan approved by the Department was 2.73 cents per kWh.

Q. How have you reflected the change to Transition Charges in Cambridge's rates?

A. Cambridge first assigns its average Transition Charge rate to each rate class. In this filing Cambridge is implementing a class-specific Transition Charge Adjustment in accordance with Cambridge's settlement agreement approved by the Department in D.T.E. 00-83. In that settlement, the Department approved a class-specific adjustment designed to ensure that the reconciliation of the Transition Charge maintains a uniform recovery of transition charges from each customer class. The methodology for the calculation of the Cambridge's Transition Charge Adjustment was set forth in Exhibit CAM/COM-1 (Settlement) [D.T.E. 00-83], which was filed with the settlement agreement in that proceeding and included data for the period from 1998 through 2000. Exhibit CAM-HCL-6 sets forth a similar calculation for Cambridge that includes data for year 2001. In certain cases as described below, Cambridge was not able to implement a portion of the adjustments indicated by such calculations.

Q. Please describe Cambridge's proposal regarding the implementation of the Transition Charge Adjustments.

A. For Cambridge, the total adjustment computed in Exhibit CAM-HCL-6 for Rate R-5 is a credit of 0.347 cents per kWh. This credit is greater than the proposed Transition Charge. Accordingly, to avoid a negative net charge on Cambridge's rate schedule, I

set the credit equal to the proposed Transition Charge of 0.200 cents per kWh. Similarly, for Cambridge's Rate G-4, Rate SB-1 and Rate MS-1, the full Transition Charge Adjustment could not be implemented without creating a negative net transition charge. Consequently, Cambridge has limited the Transition Charge Adjustment for those rates to avoid the negative net transition charge. In addition, the Transition Charge Adjustment for the Magnet Lab contract has been adjusted downward in order to achieve the 15 percent reduction for that customer class.

Q. What rate changes are proposed for Transmission rates for Cambridge?

A. The proposed average transmission rate for Cambridge reflects an increase of 0.897 cents per kWh resulting in a total average rate of 1.976 cents per kWh. The current average transmission rate is 1.079 cents per kWh. The transmission charges for individual rate schedules are developed by adjusting the initial unbundled transmission charges for each rate schedule by the ratio of the proposed average transmission rate to the initial average transmission rate (i.e., 1.976/1.094 = 1.806). Mr. Lanzel describes the development of the average Transmission rate in his testimony.

Q. What is Cambridge proposing for its Default Service Adjustment in this filing?

A. Cambridge proposes to include a Default Service Adjustment of 0.160 cents per kWh for year 2003. As shown in the exhibit to the testimony of Rose Ann Pelletier, Cambridge incurred costs for providing Default Service that have not yet been fully recovered from customers. Cambridge has an approved rate schedule (Tariff

M.D.T.E No. 779) that provides for a Default Service Adjustment Factor to reconcile the difference between the costs incurred and the revenues received in providing Default Service.

Commonwealth Electric

Q. What changes to the Transition Charges are you proposing for Commonwealth as a result of reconciliation for 2002?

A. In his testimony, Mr. Lanzel supports Transition Charges for the year 2003 of 2.749 cents per kWh for Commonwealth. This represents the maximum Transition Charge Commonwealth can implement while maintaining at least a 15 percent rate reduction for all rate classes. As a result, Commonwealth is projected to have an uncollected balance of transition costs at the end of year 2003. These charges compare to the current Transition Charge of 3.030 cents per kWh for Commonwealth. The initial Transition Charge included in Commonwealth's Restructuring Plan approved by the Department was 4.080 cents per kWh.

Q. How have you reflected the change to Transition Charges in Commonwealth's rates?

A. Commonwealth first assigns the same average Transition Charge rate to each rate class. In this filing Commonwealth is implementing a class-specific Transition Charge adjustment in accordance with Commonwealth's settlement agreement approved by the Department in D.T.E. 00-83. In this settlement the Department approved a class-specific Transition Charge adjustment designed to ensure that the reconciliation of the Transition Charge maintains a uniform recovery of transition

1 charges from each customer class. The methodology for the calculation of the
2 Commonwealth's Transition Charge adjustment was set forth in Exhibit CAM/COM-
3 1(Settlement) [D.T.E. 00-83], which was filed with the settlement agreement in that
4 proceeding. Exhibit COM-HCL-6 sets forth a similar calculation that includes data
5 for year 2001. In certain cases as described below, Commonwealth was not able to
6 implement a portion of the adjustments indicated by such calculations.

7 **Q. Please describe Commonwealth's proposal regarding the implementation of the**
8 **Transition Charge Adjustments.**

9 A. For Commonwealth, the Transition Charge adjustment calculated in Exhibit COM-
10 HCL-6 for customers taking service under special contracts is 1.502 cents per kWh.
11 This amount of adjustment is too great to implement in one year while maintaining
12 the mandated 15 percent rate reduction for this rate class. As a result,
13 Commonwealth is implementing only a portion of the calculated adjustment. The
14 remaining portion of the calculated adjustment will be implemented in future years as
15 additional "headroom" becomes available.

16 **Q. What rate changes are proposed for Transmission rates?**

17 A. The proposed average transmission rate for Commonwealth reflects an increase of
18 0.053 cents per kWh resulting in a total average rate of 0.517 cents per kWh. The
19 current average transmission rate is 0.464 cents per kWh. The transmission charges
20 for individual rate schedules are developed by adjusting the initial unbundled
21 transmission charges for each rate schedule by the ratio of the proposed average

1 transmission rate to the initial average transmission rate (i.e., 0.517/0.360 = 1.436).
2 Mr. Lanzel describes the development of the average Transmission rate in his
3 testimony.

4 **All Companies**

5 **Q. What change are the Companies proposing for Energy Efficiency and**
6 **Renewable Energy Charges?**

7 A. The mandated changes to the Energy Efficiency and Renewable Energy Charges are
8 0.25 cents per kWh and 0.050 cents per kWh, respectively, which will become
9 effective on January 1, 2003, as required by the Act.

10 **Q. Why are you proposing changes to distribution rates?**

11 A. In accordance with the Act and the Restructuring Settlement, beginning September 1,
12 1999, the Boston Edison was required to implement and maintain a 15 percent
13 reduction from its undiscounted, October 1996 rates for retail customers taking
14 Standard Offer Service. Cambridge and Commonwealth were required to implement
15 and maintain a 15 percent reduction from the August 1997 rate levels. On August 19,
16 1999, the Department informed the Companies by letter how rates should be
17 designed to ensure that the legislative mandate was followed. The Department issued
18 further directives regarding rate design and the determination of inflation factors on
19 December 17, 1999 and also during discussions with the Companies related to its
20 compliance filing for January 1, 2000 rates. In essence, the rate-design directives
21 require that: (1) all distribution rates remain at levels no greater than the levels that
22 existed on March 1, 1998; (2) the transition charges collected from each rate class

reflect a uniform rate per kWh; and (3) individual rate components (that is, $/bill, $/kW and $/kWh) should reflect no less than a 14 percent reduction from inflation-adjusted rates. As a result of complying with these rate-design constraints, the Companies were forced to reduce certain distribution charges for some of its rate schedules. In this filing , the Companies have continued to modify their distribution rates as needed to comply with the reduction requirements. In some cases this process allowed the Companies to increase distribution rates to equal or become closer to authorized levels and in other cases distribution rates are reduced. Page 4 of the HCL-2 Exhibits set forth a calculation of the authorized and proposed distribution revenue.

Q. Have the Companies provided an exhibit setting forth the design of rates that implement the proposed changes described above?

A. Yes. The HCL-3 Exhibits set forth the Companies' rate-design models and revenue proofs for each of its proposed rates.

Q. Have the Companies demonstrated its compliance with the inflation-adjusted 15 percent rate reduction?

A. Yes. Page 1 the HCL-2 Exhibits demonstrates at the rate schedule level that the 15 percent reduction is achieved for each of the Companies' rate classes. In addition, the HCL-4 Exhibits demonstrate that each rate component provides at least a nominal 14 percent reduction over the inflation-adjusted, pre-RAD rate levels with the exception of certain rate classes, which I will address separately. Since each rate component reflects at least the minimum required rate reduction,

every calculated bill will also reflect, at a minimum, the required rate reduction.

Q. What rate classes contain charges that do not reflect at least a 14 percent rate reduction over inflation-adjusted rates?

A. Cambridge's Rate G-1, Rate G-2, Rate G-3 and Rate G-4 include certain energy rate components that reflect less than a 14 percent rate reduction.

Q. How will you assure that at least a 14 percent reduction will be realized by all customers on such rate schedules?

A. If Cambridge were to reduce these energy rate components to reflect the 14 percent reduction level, it would incur a significant distribution rate shortfall. Cambridge believes that, when combined with other rate components that provide for reductions significantly greater than 14 percent, no customer taking service on these rates will experience a reduction of less than 14 percent overall. Thus, the proposed rate design is in conformance with the applicable reduction criteria.

Q. Have you performed a summary of the historical and projected charges since industry restructuring?

A. Yes. The HCL-5 Exhibits set forth the proposed unbundled charges for 2002 along with the history of unbundled charges under restructuring and the projection of charges in future years reflecting current estimates of transition charges and the scheduled changes in Standard Offer charges.

Q. What inflation data have the Companies used to compute the inflation adjustment?

A. The inflation-adjustment calculations are set forth in the HCL-7 Exhibits. The

1 inflation adjustments are computed using the Consumer Price Index for all Urban
2 Consumers ("CPI-U"). Consistent with the Department's directives, the inflation
3 factor is calculated through June 30, 2003. Data through October 2002 reflect actual
4 inflation data derived from the CPI-U published by the United States Bureau of Labor
5 Statistics. Inflation data for the period November 2002 through June 2003 are
6 projected based on the average inflation rate measured over the most recent 12
7 months of actual data.

8 **Q. Have you provided typical bill calculations that compare proposed rates with**
9 **inflation adjusted pre-RAD rates?**

10 A. Yes. The HCL-8 Exhibits set forth the Companies' typical bill comparisons.

11 **Q. Does this conclude your testimony?**

12 A. Yes, it does.