

STATE OF NEW HAMPSHIRE
before the
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire

Request for Permanent Distribution Rates Change
Docket No. DE 09-035

2010 Wind Storm Cost Recovery Request
Technical Statement of Robert A. Baumann

I. Introduction

The approved Settlement Agreement on Permanent Distribution Service Rates (“Settlement Agreement”) established a series of permanent distribution rate changes for PSNH beginning on July 1, 2010 and terminating on June 30, 2015. Within the Settlement Agreement, specifically SECTION 7 titled STORM RESERVE ACCRUAL AND RECOVERY OF CERTAIN OTHER STORM RESTORATION COSTS; future adjustments to the approved rates were anticipated associated with the February 2010 wind storm. Specifically Section 7.3 states:

7.3 None of the costs of the February 2010 wind storm are included in the rate increases specified in Sections 2.3 through 2.6. The Settling Parties will meet once the final costs of that recent storm are known to review the costs and will work cooperatively to determine an appropriate method for recovery of the prudently incurred costs, and to review and assess the appropriate funding level going forward for the Major Storm Cost Reserve. The Settling Parties may recommend a modification to one or more of the rate changes specified in Sections 2.4 through 2.6 in order to provide for recovery of the cost of the February 2010 wind storm and/or for a revision to the funding level of the Major Storm Cost Reserve.

In support of SECTION 7.3 above, PSNH is making this filing as a starting point for future discussions among the Settling Parties, related to the February 2010 wind storm costs, recovery of these costs, and the current funding level of the Major Storm Costs Reserve.

II. PSNH’s Proposal

With respect to the costs associated with the February 2010 wind storm, PSNH proposes an increase to Distribution rates on July 1, 2011 of \$3.056 million, which will provide a four year recovery period for these storm costs. A supporting calculation is attached to this Technical Statement as Attachment Storm-1.

With respect to the current \$3.500 million annual accrual level to the Major Storm Costs Reserve in rates at this time, PSNH believes this is a reasonable level and does not believe any change to this level is warranted at this time. (Ref. SECTION 7.1 of the Settlement Agreement)

III. Background on PSNH's proposal

As presented on Attachment Storm-1, PSNH is proposing to recover the net storm costs over the remaining 4 years of the Settlement Agreement (July 1, 2011 – June 30, 2015). The storm costs presented have been reduced by anticipated insurance proceeds (\$6.091 million) and 50% of the projected balance of the Major Storm Costs Reserve as of June 30, 2011 (\$3.653 million). This would leave (absent any additional storms) a balance of approximately \$4 million in the reserve heading into the Fall 2011 hurricane season and subsequent winter 2011/2012.

IV. All rate impacts on July 1, 2011 related to the Settlement Agreement

In accordance with the Settlement Agreement, there will be a change to the Distribution rates effective July 1, 2011. On March 28, 2011, PSNH made its Exogenous Events compliance filing which provides, in detail, the specific categories that PSNH believes will require a change on July 1, 2011. In that filing, PSNH is providing its best estimate at this time as to the total amount of the change, compared to the original changes anticipated in Section 2.4 of the Settlement Agreement. We are providing this early in the process so that all interested parties can be grounded as to the components of the proposed Distribution rate change. The five categories that will support the July 1, 2011 proposed Distribution rate change are as follows:

1. Exogenous Events certification for 2010 – filed March 31, 2011
2. Step 1 of REP – this is a \$1.5 million increase
3. Step increase – Net plant – these final values will be filed by April 30, 2011.
4. Storm recovery proposal related to the February 2010 wind storm expenses
5. Recoupment recovery ending June 30, 2011 which will decrease rates

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
SETTLEMENT AGREEMENT COMPLIANCE

2010 Wind Storm Costs

(Thousands of Dollars)

| | <u>Distribution Segment</u> |
|---|---------------------------------|
| 1 Summary of February 2010 major wind storm costs (1): | |
| 2 Total February 2010 wind storm costs | 26,523 (2) |
| 3 Less: Storm costs capitalized as of December 31, 2010 | 5,282 |
| 4 Less: Overhead costs expensed as of December 31, 2010 | <u>1,722</u> |
| 5 Deferred storm costs, net of overheads and capitalized costs, as of December 31, 2010 | 19,519 |
| 6 Return on storm costs accrued through December 31, 2010 | <u>889</u> |
| 7 Storm costs, net December 31, 2010 | 20,408 (3) |
| 8 Additional return expected to be accrued by July 1, 2011 | 438 |
| 9 Less: Additional storm costs capitalized in February 2011 | 47 |
| 10 Less: Estimated insurance proceeds | <u>6,091 (4)</u> |
| 11 Storm costs to be recovered, net at June 30, 2011 | 14,708 |
| 12 Less: Fifty percent of the projected balance of the Major Storm Costs Reserve at June 30, 2011 | <u>3,653</u> |
| 13 Subtotal | 11,055 |
| 14 Return on the average balance over the remaining recovery period (see page 2 of 2) | <u>1,169</u> |
| 15 Total | <u><u>12,225</u></u> |
| 16 Annual revenue requirements--Recovery of costs over 48 months beginning July 1, 2011 | <u><u>3,056</u></u> |
| 17 (1) The numbers shown represent PSNH's best estimates at this time. Any updated values | |
| 18 will be applied as an adjustment to the storm reserve (i.e. costs or insurance). | |
| 19 (2) As provided to the Audit Division of the New Hampshire Public Utilities Commission | |
| 20 (3) Balance as of December 31, 2010, PSNH general ledger account 186.43 | |
| 21 (4) NU has a joint policy that provides \$15M of storm insurance coverage for its operating companies. | |
| 22 Estimated Insurance proceeds for the total 2010 major storm costs were allocated on a storm cost basis | |
| 23 (expense and capital) between CL&P and PSNH using a ratio of 49.32% and 50.68% respectively. | |
| 24 Amounts shown above may not add due to rounding. | |

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
SETTLEMENT AGREEMENT COMPLIANCE

2010 Wind Storm Costs

(Thousands of Dollars)

1 **Return on the February 2010 major wind storm costs (1)**

| | | Quarter Ending: | | | | | | | | | | | | | | | | | |
|----|--------------------------------------|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|--------|---------|-------|
| | | June 11 | Sept 11 | Dec 11 | Mar 12 | June 12 | Sept 12 | Dec 12. | Mar 13 | June 13 | Sept 13 | Dec 13 | Mar 14 | June 14 | Sept 14 | Dec 14 | Mar 15 | June 15 | Total |
| 4 | Beginning balance | 11,055 | 11,055 | 10,428 | 9,794 | 9,151 | 8,500 | 7,840 | 7,172 | 6,495 | 5,810 | 5,116 | 4,413 | 3,700 | 2,979 | 2,248 | 1,508 | 759 | |
| 5 | Amortization | | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | (764) | |
| 6 | Balance prior to return | 11,055 | 10,291 | 9,664 | 9,030 | 8,387 | 7,736 | 7,076 | 6,408 | 5,731 | 5,046 | 4,352 | 3,648 | 2,936 | 2,215 | 1,484 | 744 | (5) | |
| 7 | Average balance to calculate return | 11,055 | 10,673 | 10,046 | 9,412 | 8,769 | 8,118 | 7,458 | 6,790 | 6,113 | 5,428 | 4,734 | 4,031 | 3,318 | 2,597 | 1,866 | 1,126 | 377 | |
| 8 | Def taxes calculated at 39.55% | N/A | (4,221) | (3,973) | (3,722) | (3,468) | (3,210) | (2,950) | (2,685) | (2,418) | (2,147) | (1,872) | (1,594) | (1,312) | (1,027) | (738) | (445) | (149) | |
| 9 | Net def costs to calculate return | N/A | 6,452 | 6,073 | 5,689 | 5,301 | 4,907 | 4,508 | 4,104 | 3,695 | 3,281 | 2,861 | 2,436 | 2,006 | 1,570 | 1,128 | 681 | 228 | |
| 10 | x Return (1) | N/A | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | 2.129% | |
| 11 | Return on def major storm costs | 0 | 137 | 129 | 121 | 113 | 104 | 96 | 87 | 79 | 70 | 61 | 52 | 43 | 33 | 24 | 14 | 5 | 1,169 |
| 12 | Ending balance, including the return | 11,055 | 10,428 | 9,794 | 9,151 | 8,500 | 7,840 | 7,172 | 6,495 | 5,810 | 5,116 | 4,413 | 3,700 | 2,979 | 2,248 | 1,508 | 759 | (0) | |

13 (1) The 8.5164% annual return (including the gross revenue conversion adjustment on the equity component for
14 taxes) is the "stipulated return" used to accrue the return on the Major Storm Costs Reserve. The stipulated
15 return requires an 8% ROE, the actual cost of long-term debt, and a specified debt /equity ratio. The stipulated
return as of December 31, 2010 was calculated as follows :

| | <u>[a]</u> <u>Capital</u> <u>Percent</u> | <u>[b]</u> <u>Cost/</u> <u>Return</u> | <u>[c]</u> <u>Wqted Avg.</u> <u>[a] * [b]</u> | <u>[d]</u> <u>Tax Adj</u> <u>[c]/ [1-TR]</u> | <u>[e]</u> <u>Tax-Adj</u> <u>Return</u> | <u>[f]</u> <u>Return</u> <u>By Qtr</u> |
|--------|--|---|---|--|---|--|
| Debt | 60.00% | 5.2267% | 3.1360% | N/A | 3.1360% | |
| Equity | 40.00% | 8.0000% | 3.2000% | 5.3804% | 5.3804% | |
| Total | <u>100.00%</u> | | <u>6.3360%</u> | | <u>8.5164%</u> | <u>2.1291%</u> |

16 Amounts shown above may not add due to rounding.