

STATE OF NEW HAMPSHIRE
before the
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire
Request for Permanent Distribution Rates Change
Docket No. DE 13-____

Step Increase for 80% of change in non-REP net plant for the period
April 1, 2012 to March 31, 2013 (Part A)

Revision to Funding Level of Major Storm Cost Reserve (Part B)

Other Distribution Rate Changes Effective 7/1/2013 related to the Settlement (Part C)

Technical Statement of Stephen R. Hall and Michael L. Shelnitz

A. Net Distribution Plant Step Increase

I. Introduction

The Settlement Agreement on Permanent Distribution Service Rates (“Settlement Agreement”) approved by the Commission in Docket No. DE 09-035 established a series of permanent distribution rates for PSNH beginning on July 1, 2010 and terminating on June 30, 2015. SECTION 2 of the Settlement Agreement entitled RATE CHANGES, provided for three additional annual step changes to Distribution rates on July 1, 2011, July 1, 2012 and July 1, 2013 (see SECTION 2.1). The first of these step changes took effect July 1, 2011 and the second of these step changes took effect July 1, 2012. The final step change, effective July 1, 2013, will incorporate an increase for 80% of actual changes in non-REP net plant for the period April 1, 2012 to March 31, 2013 (see SECTION 2.6).

II. Background

The Settlement Agreement (see SECTION 2.6) contained a projected step increase on July 1, 2013 of \$9.5 million associated with a budgeted level of non-REP net plant of \$1,149 million as of March 31, 2013. The \$9.5 million increase was supported by a budgeted change in net plant of \$76.5 million from April 1, 2012 to March 31, 2013 (reconciliation period). The actual level of non-REP net plant as of March 31, 2013 is \$1,061 million. This produced a change in actual net plant for this reconciliation period of \$49 million. The revenue requirement associated with this change in net plant for the reconciliation period is \$6.1 million.¹ A calculation of the

¹ REP capital additions have been removed from these calculations (see Attachment SRH/MLS-1, page 3 of 8 of this Technical Statement), and the calculated revenue requirement values include only 80% of

projected \$9.5 million included in the Settlement Agreement is contained on Attachment SRH/MLS-1, page 2 of 8 of this Technical Statement for reference purposes.

III. Explanation of the requested increase of \$6.1 million versus the projected value in the Settlement Agreement of \$9.5 million.

Under the Settlement Agreement, the projected step increase for 2013 of \$9.5 million is subject to downward adjustment if: a) the actual change to Net Distribution Plant is less than \$82 million; and b) the actual Net Distribution Plant balance as of March 31, 2013 is less than \$1,149 million. If both of those conditions exist, then the actual step increase is adjusted downward by the revenue requirement associated with the difference between the forecasted and actual Net Distribution Plant balance as of March 31, 2013.

As stated in section II above, PSNH's actual change to Net Distribution Plant was \$49 million, and the actual balance of Net Plant as of March 31, 2013 was \$1,061 million. Since both amounts are less than the settlement conditions above, PSNH is proposing to reduce the step increase to \$6.1 million. The calculation of the \$6.1 million is contained in Attachment SRH/MLS-1, and reflects the revenue requirements needed to keep pace with 80% of the increases to actual plant over the reconciliation period in accordance with the Settlement Agreement.

The cause of the less than forecasted change to Net Distribution Plant and less than forecasted Net Distribution Plant balance at March 31, 2013 was the sluggish economy, which continued to impact new customer and new service work. In addition, routine review of PSNH's capital spending, along with prudent management of such spending, resulted in decreased capital spending levels as compared to the levels forecasted in the Settlement Agreement.

IV. PSNH's Proposal

Pursuant to the Settlement Agreement, PSNH proposes an annual increase to its Distribution rates of \$6.1 million on July 1, 2013 associated with the change in actual net plant values during the reconciliation period. PSNH is requesting that this rate change be effective with service rendered on and after July 1, 2013.

B. Revision to Funding Level of Major Storm Cost Reserve

I. Introduction

Section 7 of the Settlement Agreement titled STORM RESERVE ACCRUAL AND RECOVERY OF CERTAIN OTHER STORM RESTORATION COSTS provided for adjustments to the approved rates if there was a future need to change the funding level of the Major Storm Cost Reserve embedded in Distribution rates. Specifically Sections 7.1 and 7.3 state:

the additional net plant changes during the reconciliation period, consistent with SECTION 2.6 and Attachment 1 of the Settlement Agreement.

7.1 The rate levels resulting from the rate adjustments specified in Section 2 include an annual accrual of \$3.5 million effective July 1, 2010 for the Major Storm Cost Reserve.

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 the last step filing PSNH requested a \$3.5 million annual increase to the funding level of the Major Storm Cost Reserve consistent with Section 7.3 above. In Order No. 25,382 dated June 27, 2012 the Commission approved the increase effective July 1, 2012, resulting in the current annual funding level of \$7.0 million.

On February 26, 2013, in Order No. 25,465, the Commission also approved deferral of pre-staging costs through the Major Storm Cost Reserve for storms that do not ultimately develop into major storms if certain predictive criteria are met.

Subsequent to approval of the annual \$7.0 million level, the Company deferred \$11.2 million in costs associated with the October 2012 Storm Sandy and \$2.6 million in costs associated with four pre-staging events occurring between December 2012 and March 2013.²

II. PSNH's Proposal

In this filing PSNH is requesting an increase to the annual funding level of the Major Storm Cost Reserve consistent with Section 7.3 above and the Commission's previous Order No. 25,382. PSNH proposes to increase the annual funding level by \$5.0 million effective July 1, 2013, resulting in total annual funding of \$12.0 million.

In view of the unprecedented magnitude and number of major storms the region has experienced over the last few years, an increase in the funding of the reserve is necessary in order for PSNH to recover its major storm costs. A \$12.0 million annual funding level will provide for more adequate recovery of storm costs over the next few years considering the unrecovered balances associated with major storms and storm pre-staging in 2011, 2012 and 2013. The actual and projected unrecovered storm balances as of March 31, 2013 and June 30, 2013 are \$24.0 million and \$22.7 million, respectively. (See Attachment SRH/MLS-2)

² The dates and costs associated with those events were as follows: December 27, 2012: \$0.71 million; February 8, 2013: \$1.60 million; February 27, 2013: \$0.23 million; and March 19, 2013: \$0.03 million.

III. Background on PSNH's Proposal

Beginning July 1, 2013, the remaining life of the Settlement Agreement is two years. Absent any additional major storms or storm pre-staging events, the proposed \$12 million annual funding level will collect all of the referenced \$22.7 million in unrecovered costs as well as \$1.0 million of additional projected carrying charges through June 30, 2015. If there are additional major storms or pre-staging events during the two year period, there would be approximately \$0.3 million of funds available to apply to those new storm costs. (See Attachment SRH/MLS-2.) Without an increase in the funding level, PSNH's net unrecovered balance of major storm costs will be approximately \$10 million as of June 30, 2015, assuming there are no major storms during the next two years.

PSNH is not seeking final approval to recover the storm costs noted above, since the Commission's Staff will audit all storm costs and determine the exact level that is appropriate for recovery. PSNH is only proposing to increase the funding level of the Major Storm Cost Reserve in order to begin recovery of the unrecovered storm balance, and therefore reduce carrying charges on the unrecovered balance.

C. Other Distribution Rate Changes Effective 7/1/2013 Related to the Settlement

I. REP plant increase

In accordance with Sections 2.6 and 5.1 of the Settlement Agreement, PSNH will increase distribution rates by \$1.6 million for the July 1, 2013 step associated with REP plant.

II. Uncollectible cost study fees

PSNH will decrease distribution rates by \$72,000 to remove the consultant costs associated with the uncollectible expense study referred to in Section 8.1 of the Settlement Agreement. These costs were approved and collected through distribution rates from July 1, 2012 to June 30, 2013.

III. Marketing expense for Renewable Default Energy Service rate

On July 1, 2011, PSNH increase distribution rates by \$73,000 to recover marketing expenses associated with its Renewable Default Energy Service rate, as authorized by the Commission's Order No. 25,246 in Docket No. DE 11-082. PSNH has a pending proposal before the Commission in Docket No. DE 12-358 to discontinue the rate if participation thereunder does not meet a specified level. PSNH has ceased its marketing efforts for the rate, and if the Commission accepts PSNH's proposal in that docket, PSNH will not incur any additional marketing costs for the rate. Therefore, PSNH is proposing to remove these costs from its distribution rates.

D. Summary of Proposed Rate Changes

PSNH's proposed rate changes in this docket are summarized below:

	Annual Revenue Impact <u>(Millions)</u>
Changes to Net Distribution Plant	\$6.100
Additional MSCR Funding	5.000
REP Plant	1.600
Consultant Expense	(0.072)
RDES Marketing Expense	<u>(0.073)</u>
Net Increase	\$12.555