

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 12-110

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Step Adjustment to Reflect Change in Net Plant, Consultant Costs and Major Storm Cost Reserve

Order Approving Petition

ORDER NO. 25,382

June 27, 2012

APPEARANCES: Sara B. Knowlton, Esq. on behalf of Public Service Company of New Hampshire; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On April 27, 2012, Public Service Company of New Hampshire (PSNH or Company) filed a petition, with a supporting technical statement and related schedules, requesting approval of a step adjustment to its distribution rates pursuant to a Settlement Agreement approved by the Commission in PSNH's most recent distribution rate case. *See*, Order No. 25,123 (June 28, 2010) in Docket No. DE 09-035. The terms of the Settlement Agreement included a provision that established a series of step adjustments to the Company's distribution rates. In the instant filing, PSNH requested approval of the step increase scheduled for effect July 1, 2012. Specifically, PSNH requested an increase to distribution revenues of \$7 million to recover the revenue requirements associated with 80% of non-reliability enhancement program (non-REP) net plant placed in service along with \$72,000 to recover consultant costs associated with a review of its uncollectible expense, as contemplated by the Settlement Agreement. In addition, PSNH requested an increase of \$3.5 million in the annual contribution to its major storm reserve fund. PSNH requested approval of the step adjustment to distribution rates for effect with

service rendered on and after July 1, 2012. The Commission issued an Order of Notice on May 18, 2012 scheduling a hearing for June 21, 2012. On June 7, 2012, PSNH filed a supplemental technical statement and related attachments.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

PSNH stated that the approved Settlement Agreement in Docket No. DE 09-035 established a series of step adjustments to the Company's distribution rates with step increases scheduled for July 1, 2011, July 1, 2012 and July 1, 2013. The Commission approved the first of those step agreements on June 24, 2011 in Order No. 25,240. In this filing PSNH seeks the second of those step increases.

According to the filing, Section 2 of the Settlement Agreement sets forth the series of changes to PSNH's permanent distribution rate level, including a projected step increase in distribution rates of \$9.5 million for effect on July 1, 2012 to recover the revenue requirements associated with 80% of changes to non-REP net plant balances for the period April 1, 2011 through March 31, 2012. PSNH testified that the value of actual additions to non-REP delivery plant rate base for the year ending March 31, 2012 was lower than the projected increase in the Settlement Agreement. PSNH said that the actual 80% value of the changes to non-REP net plant balances results in a step increase request of \$7 million.

According to PSNH, there are two reasons why the proposed actual increase is less than the projected increase in the Settlement Agreement. First, the projected step increase of \$9.5 million was based on 2011-2012 budget information from the Company's 2009 forecast. PSNH testified that the actual values used to calculate the proposed increase of \$7 million are different from the budgeted amount based on the timing of when plant additions were actually put into

service and reflected in the books of PSNH. Second, as part of PSNH's routine review of its capital spending levels, decisions were made throughout 2011 and the first quarter of 2012 to decrease these levels, resulting in actual capital additions for the 2011-2012 period being lower than initially budgeted. The Company said that one significant driver contributing to the decreased spending levels was lower actual peak loads than originally forecasted.

In addition, the Company requested that the Commission allow it to recover certain expenses incurred in retaining Monticello Consulting Group, Limited (Monticello) to review the Company's uncollectible expense. Pursuant to Section 8 of the Settlement Agreement, PSNH was directed to hire a consultant to review and analyze trends in the Company's uncollectible expense, the underlying reasons for the increased level of expense incurred by the Company, the Company's collection practices, the Commission's rules and practices regarding credit and collection activities, and PSNH's deposit and credit policy language for large customers. The Settlement Agreement also provided that PSNH shall be allowed to defer and recover the costs of the study in one of the series of established step adjustments. In implementing this provision, PSNH used a competitive bidding process and awarded the contract to Monticello. PSNH said that the Settlement Agreement limited the cost of the study to no more than \$100,000. At the time of PSNH's April 27 filing, it estimated that the costs would not be more than \$72,000, well within the not-to-exceed cost.

In the supplemental filing of June 7, 2012, the Company reported that the final invoiced cost for Monticello's report on uncollectible expense was \$70,920.86. PSNH determined that the amount of \$1,079.14—the difference between \$72,000, the amount requested in its initial filing and the actual billed amount \$70,920.86—would not affect the ultimate distribution rate change

for effect July 1 because the sum is too small to be reflected in rates due to rounding and, therefore, did not adjust its request for recovery of the study costs.

PSNH also requested an increase to the funding level of the major storm cost reserve to allow the Company begin recovery of expenses associated with repairing damage to its electrical system caused by two major storms that occurred in 2011—Hurricane Irene (August 2011) and the October 2011 snowstorm. According to PSNH, the request is supported by Section 7.3 of the Settlement Agreement which states that the settling parties may recommend a revision to the funding level of the majors storm cost reserve. PSNH further testified that, beginning with Hurricane Irene, PSNH, along with all of the other operating companies of Northeast Utilities (NU), discontinued the use of the existing insurance program for major storms due, in part to the adverse loss experience in the program caused by the frequency and severity of major storms experienced by NU during the period 2008 through 2011. Consequently, the costs associated with Hurricane Irene and the October snowstorm do not contain any insurance recoveries.

PSNH said that the current level of recovery in distribution rates for the funding for the major storm cost reserve is \$3.5 million per year. PSNH requested authority to increase this amount by \$3.5 million to \$7 million per year effective with rates on July 1, 2012. According to PSNH, annual funding at the \$7 million is appropriate in light of the unrecovered costs associated with the two major storms that occurred in 2011. According to PSNH, the costs associated with restoring power and repairing damage to its electrical system caused by Hurricane Irene and the October snowstorm were approximately \$7.1 million and \$15.7 million, respectively. After subtracting the estimated June 30, 2012 balance in the major storm reserve of \$8.2 million, the net result is \$14.6 million of unrecovered storm-related costs. PSNH said it was not seeking final approval to recover the storm costs as those costs have not been fully reviewed

and audited by the Commission; however, the Company said that beginning recovery of the costs would reduce the carrying charges paid by ratepayers on the unrecovered balance. PSNH requested the annual funding of \$7 million to continue until PSNH's next distribution rate case, which is expected to occur in 2015. PSNH testified that it would adjust recovery of the costs associated with the two 2011 major storms as necessary following the Commission's review of those costs.

B. Staff

Staff stated that it had reviewed the filing and determined that the calculation of the non-REP net plant addition and the costs of the consultant are appropriate and consistent with the terms of the settlement agreement approved in connection with the Company's most recent distribution rate case. Staff said it had no objection to the proposal to increase the annual contribution to the major storm reserve. Staff stated that the two storms at issue were not contemplated by the settlement agreement, although the storms did qualify as major storms. Staff said that, if recovery for those storm-related costs does not commence, it will take longer for PSNH to recover the costs, and that the costs will increase due to the addition of the associated carrying costs. Further, using PSNH's assumptions—including an assumption of no other major storms over the three-year period—Staff noted that there would be a positive balance in the major storm reserve at the end of the three-year period. Staff noted that a positive balance in the reserve account would be available to offset costs associated with any major storm that could occur during that period. Staff concluded by recommending that the Commission approve the petition.

III. COMMISSION ANALYSIS

We have reviewed the filing and the supporting calculations along with the additional information offered in evidence on the record. We find that the petition is consistent with the terms of the settlement agreement approved in connection with PSNH's most recent distribution rate case and therefore approve the step increase in distribution rates to include \$7 million in non-REP net plant additions and the recovery of consultant costs in the amount of \$72,000 as requested by the Company. As a follow-up to the consultant's report on PSNH's uncollectible expense, PSNH should meet with Staff, the Office of Consumer Advocate and other parties, as necessary, to provide periodic updates of the status of the various recommendations contained in the report.

We also grant PSNH's request to increase the annual amount of revenue to be deposited in the major storm reserve fund from \$3.5 million to a total annual amount of \$7 million, for a period of three years to deposit in the major storm reserve fund for purposes of paying down the costs associated with repairing the damage caused by Hurricane Irene and the October snowstorm. In granting our approval, we also note that the balance in the major storm reserve can be reviewed in the future for potential adjustments.

This is one of several orders we are issuing for PSNH rates for effect with service rendered on and after July 1, 2012: the instant proceeding, an adjustment to distribution rates for additions to net plant and consultant costs, and an adjustment to collections to be deposited in PSNH's major storm reserve; Docket No. DE 11-217, PSNH's a mid-year adjustment to PSNH's stranded cost recovery charge; and Docket No. DE 11-215; an adjustment to PSNH's energy service charge and in Docket No. DE 12-159, an adjustment to PSNH's transmission cost adjustment mechanism. Overall, the average total bill impact of these rate changes effective July

1, 2012 is an approximate decrease of 4.4 % for a PSNH customer who takes energy service from PSNH (i.e., a customer that does not purchase energy from a competitive supplier). We find these resulting rates to be just and reasonable pursuant to RSA 378:7.

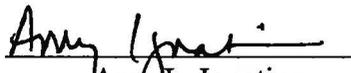
Based upon the foregoing, it is hereby

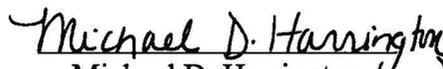
ORDERED, that Public Service Company of New Hampshire's petition for a step adjustment to distribution revenues to recover of \$7 million of revenue requirements associated with certain qualifying investments in distribution plant and \$72,000 to recover certain consultant costs is hereby APPROVED; and it is

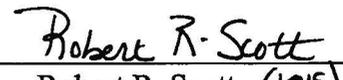
FURTHER ORDERED, that Public Service Company of New Hampshire's request to increase the annual accrual to the major storm reserve fund from \$3.5 million to \$7 million is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file conforming tariffs within 30 days of the date of this Order, consistent with N.H. Code Admin. Rule Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2012.


Amy L. Ignatius
Chairman


Michael D. Harrington (KNS)
Commissioner


Robert R. Scott (KNS)
Commissioner

Attested by:


Debra A. Howland
Executive Director