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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 11, 2008 - 9:10 a.m.
Concord, New Hampshire

RE: DE 08-071
PUBLIC SERVICE OF NEW HAMPSHIRE:
Request for an Adjustment to
Distribution Rates regarding a
Major Storm Cost Reserve.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. Public Service of New Hampshire:
Gerald M. Eaton, Esq.

Reptg. Residential Ratepayers:
Meredith A. Hatfield, Esq., Consumer Advocate
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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E X H I B I T S

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EXHIBIT NO. D E S C R I P T I O N PAGE NO.

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1	Filing of a request for an adjustment to the Major Storm Cost Reserve as part of PSNH's distribution rates (04-30-08)	7
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2	Testimony & Attachments of Stephen R. Hall	9
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3	Various spreadsheets entitled "Retail Rate Level by Rate Class and Unbundled Component" in landscape format (5 pages)	11
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4	Two-page document , including an excerpt from the DE 06-028 Settlement Agreement, Page 7, and also a response by PSNH to Data Request NSTF-08, Q-STAFF-001 dated 05-01-08	20
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{DE 08-071} (06-11-08)

1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DE 08-071. On
4 April 30, 2008, Public Service Company of New Hampshire
5 filed a petition requesting an adjustment to its
6 distribution rates to recover an under-funding of its
7 Major Storm Cost Reserve account, pursuant to a Settlement
8 Agreement approved in Order Number 24,750, issued in May
9 2007. PSNH has stated that it experienced two major
10 storms in April 2007, with costs totaling in excess of
11 \$8 million that were applied to the reserve account
12 creating an under-funded position. PSNH proposes to
13 increase its distribution rates by \$2.958 million annually
14 ultimately over two years to eliminate the under-funding.

15 Order of notice was issued on May 10
16 setting the hearing for this morning. I also note that
17 the order of notice indicated the sequence of four
18 hearings that will be conducted this morning. The first
19 is DE 08-071, concerning the reserve -- the Major Storm
20 Reserve account; then we will take up 07-096, concerning
21 the Energy Service rate; third will be 07-097, concerning
22 the Stranded Cost Recovery Charge; and we'll conclude with
23 08-069, concerning the Transmission Cost Adjustment
24 Mechanism.

{DE 08-071} (06-11-08)

1 Can we take appearances please.

2 MR. EATON: For Public Service Company
3 of New Hampshire, my name is Gerald M. Eaton. Good
4 morning.

5 CHAIRMAN GETZ: Good morning.

6 CMSR. MORRISON: Good morning.

7 CMSR. BELOW: Good morning.

8 MS. HATFIELD: Good morning
9 commissioners. Meredith Hatfield, from the Office of
10 Consumer Advocate, on behalf of residential ratepayers,
11 and with me is Ken Traum.

12 CHAIRMAN GETZ: Good morning.

13 CMSR. MORRISON: Good morning.

14 CHAIRMAN GETZ: Good morning.

15 MS. AMIDON: Good morning. Suzanne
16 Amidon, for Commission Staff, and with me today is Steve
17 Mullen, who is the Assistant Director for the Electric
18 Division and a Utility Analyst.

19 CMSR. BELOW: Good morning.

20 CMSR. MORRISON: Good morning.

21 CHAIRMAN GETZ: Good morning. Do we
22 have an agreement on how we'll proceed in phase one of
23 today's proceedings?

24 MR. EATON: Yes, Mr. Chairman. I'd like

[WITNESS PANEL: Baumann|Hall]

1 to call Robert Baumann and Stephen Hall to the stand.

2 (Whereupon Robert A. Baumann and
3 Stephen R. Hall were duly sworn and
4 cautioned by the Court Reporter.)

5 ROBERT A. BAUMANN, SWORN

6 STEPHEN R. HALL, SWORN

7 DIRECT EXAMINATION

8 BY MR. EATON:

9 Q. Mr. Baumann, would you please state your name for the
10 record.

11 A. (Baumann) My name is Robert A. Baumann.

12 Q. And, for whom are you employed?

13 A. (Baumann) I'm employed by Northeast Utilities Service
14 Company. I'm the Director of Revenue Regulation and
15 Load Resources. My responsibilities include all
16 tracking mechanisms in all three jurisdictions for
17 Northeast Utilities, that being Connecticut,
18 Massachusetts, and New Hampshire, as well as all
19 revenue requirement calculations in New Hampshire for
20 Public Service Company of New Hampshire.

21 Q. And, have you previously testified before this
22 Commission?

23 A. (Baumann) Yes, I have.

24 Q. Did you prepare testimony, which was filed under my

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[WITNESS PANEL: Baumann|Hall]

1 cover letter on April 30th, 2008?

2 A. (Baumann) Yes.

3 Q. I note that the docket number is "DE 06-028", is that
4 correct that that was on the letter?

5 A. (Baumann) Yes.

6 Q. And, the Commission has done what since then?

7 A. (Baumann) The Commissioner -- The Commission revised
8 that docket and actually created a new docket number
9 08-071 for this issue.

10 Q. Other than that, is the testimony true and accurate to
11 the best of your knowledge and belief?

12 A. (Baumann) Yes.

13 Q. Do you have any corrections to make to that testimony?

14 A. (Baumann) No.

15 MR. EATON: Could we have that marked as
16 "Exhibit 1" for identification?

17 CHAIRMAN GETZ: So marked.

18 (The document, as described, was
19 herewith marked as Exhibit 1 for
20 identification.)

21 MR. EATON: And, Commissioners have
22 copies?

23 CMSR. BELOW: Yes.

24 BY MR. EATON:

{DE 08-071} (06-11-08)

[WITNESS PANEL: Baumann|Hall]

- 1 Q. Mr. Hall, could you please state your name for the
2 record.
- 3 A. (Hall) Stephen R. Hall.
- 4 Q. And, for whom are you employed?
- 5 A. (Hall) Public Service of New Hampshire. I'm Rate and
6 Regulatory Services Manager.
- 7 Q. And, what are your duties at that position?
- 8 A. (Hall) Regulatory rate relations, rate design, and rate
9 administration.
- 10 Q. Have you previously testified before this Commission?
- 11 A. (Hall) Yes, I have.
- 12 Q. Did you have testimony prepared by you or under your
13 supervision?
- 14 A. (Hall) Yes, I did.
- 15 Q. And, when was that filed?
- 16 A. (Hall) That was filed along with Mr. Baumann's
17 testimony on April 30th, 2008.
- 18 Q. And, do you recognize that testimony? Do you have it
19 in front of you?
- 20 A. (Hall) Yes, I do.
- 21 Q. Is it true and accurate to the best of your knowledge
22 and belief?
- 23 A. (Hall) It is, yes.
- 24 Q. Do you need to make any corrections to that testimony?

{DE 08-071} (06-11-08)

[WITNESS PANEL: Baumann|Hall]

1 A. (Hall) Not to my knowledge.

2 Q. Do you adopt it as your own?

3 A. (Hall) Yes, I do.

4 Q. And, if I asked you those same questions today, you
5 would answer in the same manner?

6 A. (Hall) I would.

7 MR. EATON: Could we have that marked as
8 "Exhibit 2" for identification?

9 CHAIRMAN GETZ: So marked.

10 (The document, as described, was
11 herewith marked as Exhibit 2 for
12 identification.)

13 BY MR. EATON:

14 Q. Now, Mr. Hall, do you have a document of several pages
15 that's in landscape format that shows -- that
16 summarizes what we're going to be doing today?

17 A. (Hall) Yes, I do.

18 Q. And, what is this document?

19 A. (Hall) This document is a spreadsheet that I put
20 together, at Staff's request and OCA's request, that
21 attempts to summarize all of the changes that are
22 occurring in the various rate components for the four
23 hearings that are being held today.

24 On the first page what we show is, in

{DE 08-071} (06-11-08)

[WITNESS PANEL: Baumann|Hall]

1 overall average cents per kilowatt-hour, the rate level
2 by major rate class. And, you can see the rows show
3 the major rate classes and the columns show the various
4 components of rates, Distribution, Transmission,
5 Stranded Costs, System Benefits, Consumption Tax,
6 Energy Service, and Total. Down the bottom shows the
7 total retail rate level by component.

8 The second page shows proposed rate
9 level, again by major rate class and by component,
10 Distribution, Transmission, Stranded Cost, Energy
11 Service, and so on. So, the difference between the
12 first page and the second page is the first page is
13 overall average rate level in effect today, whereas the
14 second page is what we're proposing today for a rate
15 level for effect July 1, 2008.

16 On the third page I've summarized the
17 difference in average cents per kilowatt-hour by rate
18 component, by rate class. And, that's simply the
19 difference between the amounts in the cells on Page 1
20 and the amounts in the cells on Page 2, and it shows a
21 change by component.

22 The fourth page takes that change by
23 component and divides by the total revenue level by
24 class to give the percent change by component in

{DE 08-071} (06-11-08)

[WITNESS PANEL: Baumann|Hall]

1 overall rate level by class.

2 And, the fifth page also shows percent
3 changes. The fifth page shows percent changes in each
4 rate component, rather than in overall rate level.
5 And, what you'll see is the percentages on the fifth
6 page, because they are percent changes in each rate
7 component, Distribution, Transmission, and so on,
8 rather than an overall rate level, those percentages
9 are going to be larger than the percentages that appear
10 on the fourth page, because the numerator in the
11 equation is smaller. It's the rate component rather
12 than total rate class. So, what we've done is tried to
13 summarize everything that's happening today.

14 MR. EATON: Could we have this marked as
15 "Exhibit 3" for identification?

16 CHAIRMAN GETZ: So marked.

17 (The document, as described, was
18 herewith marked as Exhibit 3 for
19 identification.)

20 BY MR. EATON:

21 Q. Mr. Baumann, could you please summarize your testimony
22 in this proceeding.

23 A. (Baumann) My testimony, actually, the Chairman
24 summarized it quite well at the beginning, but I'll go

[WITNESS PANEL: Baumann|Hall]

1 over it briefly. We are here today to request an
2 increase in the distribution rate associated with
3 additional major storm costs that we have incurred
4 subsequent to the setting of rates on July 1, 2007. At
5 that time, a level of storm recovery was set at a base
6 level of \$1.7 million per year, as well as a three year
7 recovery level associated with a prior negative reserve
8 balance from prior year storms, and that's being
9 recovered over the three year period July 2007 through
10 June 2010.

11 Why we're here today is, subsequent to
12 that rate setting, PSNH incurred two major storms in
13 April of 2007. And, what -- unanticipated storms.
14 And, what these material storms produced was the entire
15 \$1 million reserve balance that was in effect
16 effective July 1, 2007 was used. And, in addition to
17 that, the \$1.7 million accrual for the year was also
18 used. And, the reserve balance effective the end of
19 June of 2008, which is this month, will be
20 approximately 4.5 million negative. As we've discussed
21 before, you set up a reserve balance on the Company's
22 books, that reserve balance is in anticipation of
23 future storms. And, it's -- a reserve, from an
24 accounting perspective, is a positive number. You set

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[WITNESS PANEL: Baumann|Hall]

1 up a positive reserve. We are sitting now, as of the
2 end of June, with a \$4.5 million negative reserve. We
3 would request that that be put back, if you will, to a
4 1 million positive balance. So, we have a \$5.5 million
5 under-funding of the current storm reserve balance.

6 Our proposal is to take that
7 \$5.5 million under-funding and recover that effective
8 July 2008 over the next two years, at approximately
9 \$2.9 million a year. If we do not collect that amount,
10 and if there are no rate change, the \$4.5 million
11 under-funding or negative balance in reserve account
12 will continue. And, assuming the \$1.7 million base
13 rate level collects any future storms, it would remain
14 at a negative \$4.5 million level accruing carrying
15 costs I think in the vicinity of about \$700,000 a year.
16 So, the negative balance would actually increase.

17 Q. What is the net, if the Commission accepts this
18 proposal, what is the net change to distribution rates
19 alone, the distribution rate component that would take
20 place on July 1st?

21 A. (Hall) The net change is shown on Page 3 of Exhibit 3.
22 You've got two things happening on July 1st. First,
23 we've got a recoupment being removed, that's shown in
24 the first column. In the second column we show our

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[WITNESS PANEL: Baumann|Hall]

1 proposed increase for the storm reserve. If you look
2 at the bottom line, under "Total Retail", you can see
3 that recoupment results in a rate decrease on average
4 of 0.041 cents per kilowatt-hour. The storm reserve
5 increase would be 0.036 cents per kilowatt-hour. For a
6 net decrease in overall distribution rates of 0.005
7 cents per kilowatt-hour.

8 Q. Mr. Hall, could you please summarize your testimony.

9 A. (Hall) Certainly. My testimony simply sets forth
10 proposed rates and charges to recover the increase in
11 the storm reserve described in Mr. Baumann's testimony.
12 And, in my testimony, I talk about how that increase
13 was done. We first removed the recoupment from overall
14 rate level. We then increased all rates and charges by
15 a proportional amount to get to a level where we would
16 recover the revenue requirements described in
17 Mr. Baumann's testimony, and the attachments -- the
18 attachment to my testimony, Attachment 2 -- I'm sorry,
19 Attachment SRH-1, Pages 2 through 5, show individual
20 rates and charges that we're proposing.

21 Q. And, Mr. Hall, if someone wanted to calculate the
22 overall change of all these rate changes on a typical
23 bill, where would that be done?

24 A. (Hall) Because we haven't yet performed the rate design

[WITNESS PANEL: Baumann|Hall]

1 for stranded cost recovery charges, we have don't have
2 a final rate design, and, therefore, I can't tell you
3 exactly what a typical residential bill would increase.
4 But, to give you an idea, if you look at the last --
5 Page 4 of Exhibit 3, overall rate level, if you look in
6 the lower right-hand column, is increasing or would
7 increase by about 5.85 percent for all of the changes.
8 And, residential rates would increase roughly five and
9 a half percent.

10 Q. Do either of you gentlemen have anything to add to your
11 testimony?

12 A. (Baumann) No.

13 A. (Hall) No.

14 MR. EATON: The witnesses are available
15 for cross-examination.

16 CHAIRMAN GETZ: Ms. Hatfield.

17 MS. HATFIELD: Thank you, Mr. Chairman.

18 Good morning, gentlemen.

19 WITNESS HALL: Good morning.

20 WITNESS BAUMANN: Good morning.

21 CROSS-EXAMINATION

22 BY MS. HATFIELD:

23 Q. I'm wondering if you can describe what types of costs
24 the Company includes in the Major Storm Reserve

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[WITNESS PANEL: Baumann|Hall]

1 account?

2 A. (Hall) I can do that. It's essentially all costs
3 incurred during a major storm, when a major storm event
4 is declared. And, it's basically labor, it's vehicle
5 expense, it's payment to contractors who come in that
6 we -- that PSNH's hires to perform work on the storm,
7 materials and supplies, and employee expense during
8 storms. Those are the general categories.

9 Q. And, in an example such as your call center, would it
10 only be the increases in costs attributable to the
11 storm, so that you're really just charging the
12 additional cost to the storm reserve, because the call
13 center would have been running anyway? So, that there
14 would be incremental costs charged to the storm, but
15 would the overall costs be charged as well?

16 A. (Hall) It is, if you're talking about labor, it's the
17 total cost for labor. It doesn't include overheads,
18 but it does include labor at whatever rate of pay is
19 being paid.

20 Q. And, those, excuse me, those costs are subject to audit
21 by the PUC's Audit Division, is that correct?

22 A. (Hall) Yes. In fact, there's an audit underway right
23 now.

24 MS. HATFIELD: Okay. Thank you. No

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[WITNESS PANEL: Baumann|Hall]

1 further questions.

2 CHAIRMAN GETZ: Ms. Amidon.

3 MS. AMIDON: Thank you. With your
4 permission, I'm going to turn the questioning over to Mr.
5 Mullen.

6 MR. MULLEN: Good morning.

7 WITNESS HALL: Good morning.

8 BY MR. MULLEN:

9 Q. Regarding your comment regarding the audit, if there
10 are any changes that come out of the audit, how would
11 those be dealt with, in terms of accounting in the
12 reserve?

13 A. (Hall) It depends on whether PSNH agrees or disagrees
14 with the changes, I guess.

15 Q. Assume there's a change for which you agree.

16 A. (Hall) Okay. What we would do is we would simply
17 adjust the balance of the reserve. We would make an
18 entry to either remove or add whatever costs are
19 resulting from the audit or are found by the audit.

20 Q. Do you know of any items that may have changed the
21 costs incurred for the three storms in 2007?

22 A. (Hall) Yes. There is one item, during an investigation
23 that was being done by our insurance company, which
24 relates to a second item that I'll talk about in just a

[WITNESS PANEL: Baumann|Hall]

1 moment, we discovered that there were costs that were
2 charged to a PSNH work order for the second April storm
3 that should have been changed to a CL&P work order.
4 It's about a half a million dollars, which is going to
5 be removed, and CL&P's reserve will be correspondingly
6 increased.

7 The other thing that's going on, I
8 referred to earlier, is an audit by our insurance
9 company, we filed an insurance claim for that second
10 storm. And, there is a fairly large deductible, I
11 believe it's \$10 million, but I also believe it's a
12 deductible company-wide, meaning PSNH, CL&P, WMECO. We
13 exceeded \$10 million company-wide, so we are pursuing a
14 claim with the insurance company to get reimbursement
15 for at least some of the expense. If we do get
16 reimbursement, any reimbursement that PSNH gets will be
17 used to reduce the reserve. But I don't know the
18 status of that. I know that it's underway, but I don't
19 know -- I don't know where it stands.

20 Q. So, that amount is to be determined?

21 A. (Hall) It's to be determined, yes, sir.

22 Q. And, any changes to the costs regarding the amounts you
23 just described would just affect the accounting of the
24 reserve going forward?

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[WITNESS PANEL: Baumann|Hall]

1 A. (Hall) Yes.

2 Q. When you were talking about the overall changes to the
3 distribution rate, one thing that you mentioned was
4 recoupment going away. Could you just for the record
5 say what that recoupment relates to?

6 A. (Hall) What it relates to?

7 Q. Yes.

8 A. (Hall) Yes, sir. As part of the settlement of the rate
9 case that went into effect on July 1st, 2007, PSNH was
10 allowed to recoup a certain amount of dollars that
11 represented the difference between the rate level that
12 was ultimately -- permanent rate level that was placed
13 in effect on July 1st, as compared to the rates that
14 had been billed since July 1, 2006, when PSNH's rates
15 were made temporary. That recoupment amount has been
16 included in PSNH's rate level and is in there right
17 now. But, as of the end of June 2008, that amount
18 needs to be removed from PSNH's rate level. Recoupment
19 ends, the dollars will have been recouped. And,
20 therefore, there has got to be a reduction in PSNH's
21 distribution rate level to remove those dollars.

22 Q. Okay. Thank you. Now I have something I'd like to
23 hand out.

24 (Atty. Amidon distributing documents.)

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[WITNESS PANEL: Baumann|Hall]

1 BY MR. MULLEN:

2 Q. The document that was just handed out is two pages.
3 And, the first page I've labeled at the top "From DE
4 06-028 28 Settlement Agreement". And, the second page
5 is a copy of a discovery response in this current
6 proceeding. Do you, regarding the first page, do you
7 recognize that as being a page from the DE 06-028 rate
8 case settlement?

9 A. (Baumann) Yes.

10 A. (Hall) Yes.

11 Q. Now, earlier, Mr. Baumann, you mentioned that PSNH is
12 currently recovering over a three year period, there
13 was a negative balance in the reserve account at the
14 time that we were discussing settlement in the last
15 rate case, is that correct?

16 A. (Baumann) Yes.

17 Q. And, I think, if you look at Page 1 of this, --

18 MR. MULLEN: Which I'd like to have
19 marked as "Exhibit Number 4"?

20 CHAIRMAN GETZ: Be so marked.

21 (The document, as described, was
22 herewith marked as Exhibit 4 for
23 identification.)

24 BY MR. MULLEN:

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[WITNESS PANEL: Baumann|Hall]

- 1 Q. If you look at the -- towards the bottom of the page,
2 there's a mention of "\$9.2 million", which was an
3 estimated amount at the time?
- 4 A. (Baumann) Yes.
- 5 Q. And, could you tell me what that \$9.2 million includes?
- 6 A. (Baumann) Well, it's really three components. First
7 component of 7.2 million was the actual shortfall or
8 negative balance in the reserve that had accumulated as
9 a result of additional storms, over and above the level
10 allowed in base rates. There was a million dollars,
11 because we are -- our proposal back in the settlement
12 time was a funded reserve, not a zero reserve, and that
13 funded reserve we had asked to be kept at a level of
14 1 million. So, that was in the revenue requirements.
15 And, then, there was an additional 1 million of return
16 that had accumulated and that would accumulate over the
17 three-year recovery period as you recovered the
18 unfunded balance. But, as the balance remained
19 unfunded, there is a recovery charge or, excuse me, a
20 return calculation calculated on that under-funded
21 balance. So, 7.2 and the 1 million for the additional
22 amount to be -- to get us into a funded position, and
23 then \$1 million of carrying costs.
- 24 Q. Now, your current proposal to recover approximately

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[WITNESS PANEL: Baumann|Hall]

1 five and a half million dollars over two years is
2 structured similarly, is that correct?

3 A. (Baumann) Yes.

4 Q. So, it's the same type of three components in that
5 request?

6 A. (Baumann) Yes.

7 Q. And, I think, if you turn to Page 2 of Exhibit 4,
8 that's what this question was getting to. What I'd
9 like to concentrate on is the million dollar of funding
10 -- the extra million dollar of funding amount to keep a
11 positive balance in the reserve. What you're currently
12 collecting now from the last rate case over three years
13 included an additional million dollars, as you just
14 discussed. And, your current request also includes the
15 additional million dollars. And, could you just go
16 through, and you have a response here that kind of
17 summarizes your position on this, in terms of how that
18 shows that or how you can say that the million dollars
19 isn't, in effect, being collected twice?

20 A. (Baumann) Sure. Paragraph one basically says "we have
21 a deficit", what I'll refer to as the "old deficit",
22 \$7.2 million. And, we want to -- we want to not only
23 collect that deficit, but we want to collect a million
24 dollars for future funding. And, that's the 8.2. And,

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[WITNESS PANEL: Baumann|Hall]

1 then we talked about the carrying charge of another
2 million. That's set in current rate levels.

3 What has happened, as a result of these
4 additional unforeseen outages, that million dollars
5 that was in the fund, as well as the current accrual
6 rate of \$1.7 million, which is also being recovered
7 from customers currently, to, in theory, collect any
8 storm reserve -- any storm costs over an annual period
9 of time. Those have both been used up, if you will,
10 and to the point that there is no 1 million left in the
11 reserve that was restored effective with the
12 Commission's order in the settlement, as well as the
13 1.7 million for this particular year has been totally
14 eaten up as well. And, the resulting, that was
15 discussed in paragraph three, was that we are in a
16 negative \$4.5 million value.

17 So, you can kind of look at it like the
18 Commission, through the settlement, the Commission set
19 rates to recover a level of costs, and anticipated or
20 assumed in that recovery that going forward we would
21 have \$1.7 million a year of storm. Therefore, there
22 was another \$1.7 million put into base rates. Because
23 of these two additional storms in April, primarily,
24 which totaled over \$8.3 million, the million dollar

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[WITNESS PANEL: Baumann|Hall]

1 funded amount has been used, the \$1.7 million amount
2 has been used, and we are now in a position at a
3 negative \$4.5 million. We want to get that back up to
4 a positive \$1 million amount. So, we're under-funded
5 \$5.5 million. And, again, this assumes that, over the
6 next two years, which will -- the next two years will
7 do two things, the recovery of this, what I call the
8 "new deficit" that we've requested over the next two
9 years, and it will be the second and third year of the
10 recovery of the "old deficit". And, at the end of that
11 time, assuming storms average about \$1.7 million a
12 year, we should be at a funded level of approximately
13 \$1 million.

14 Q. If the amount that you weren't -- that you're currently
15 collecting now over three years, if that did not
16 include the additional million dollars, your current
17 balance of under-funding now you say is four and a
18 half. What would that balance be today or at the end
19 of June if you hadn't previously collected that
20 \$1 million?

21 A. (Baumann) That it would be effectively a million
22 dollars lower.

23 Q. So, you would be looking for now six and a half, rather
24 than five and a half, to get back to a million dollar

{DE 08-071} (06-11-08)

[WITNESS PANEL: Baumann|Hall]

- 1 funding level?
- 2 A. (Baumann) Yes. If the Commission had ruled that, "no,
3 we're going to have a zero balance in your fund",
4 which, again, from a funding perspective, didn't make
5 sense to us, but, if that had been the case, then we
6 would have, in effect, started at zero with
7 \$1.7 million, and we would be \$5.5 million in a
8 negative position. And, if we were asking for an
9 additional fund of \$1 million, we'd be asking for
10 \$6.5 million at this time.
- 11 Q. So, with the current roughly \$9.2 million that's being
12 collected over three years, and your proposal today to
13 collect five and a half million over two years, are
14 those scheduled to both end at the same time?
- 15 A. (Baumann) Yes.
- 16 Q. And that would be June 30th of 2010?
- 17 A. (Baumann) Yes.
- 18 A. (Hall) Yes.
- 19 Q. So, all else being equal, there could be a decrease to
20 distribution rates at that time, when both of those
21 end, assuming no other changes that we have to deal
22 with in the future regarding the storm reserve?
- 23 A. (Baumann) Yes. Again, assuming that the average storms
24 are \$1.7 million a year for the next two years, which

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1 would equate to the average recovery in base rates
2 currently of the 1.7 million. But, to the extent they
3 were higher or lower, we'd love to have no storms,
4 you'd have an additional \$3.4 million over two years to
5 apply against that reserve. But, all else being equal,
6 you're correct.

7 MR. MULLEN: I have no further
8 questions.

9 BY CMSR. BELOW:

10 Q. Just to jump ahead on Exhibit 3. The bottom line on
11 each page says "Total Retail", particularly with regard
12 to the percentages, it's, in effect, the aggregate for
13 all retail sales, which in a sense is the weighted
14 average of all the individual components, is that
15 correct?

16 A. (Hall) Yes, it is.

17 CMSR. BELOW: Okay. That's all.

18 BY CHAIRMAN GETZ:

19 Q. I want to follow up, I guess it's with you, Mr. Hall,
20 on Ms. Hatfield's question about what costs are
21 included in the storm cost. And, it's, obviously, the
22 payments to outside contractors is incremental.

23 A. (Hall) Yes.

24 Q. But she asked you a question about the call center,

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[WITNESS PANEL: Baumann|Hall]

1 which I guess I would ask with respect to all labor, is
2 it an incremental cost of labor that's in the storm
3 reserve or is it -- well, explain.

4 A. (Hall) No. It's the total cost of the labor that we
5 book for the storm reserve. And, I believe that's also
6 the case for the call center. The bulk of the labor is
7 for people in the field doing the work.

8 Q. So, it's not just overtime?

9 A. (Hall) No. No. It's straight time, plus overtime, no
10 overheads, they get booked to the reserve.

11 BY CMSR. BELOW:

12 Q. Well, to clarify that, I mean, the call center, let's
13 assume the call center has a normal daily operating
14 cost of \$50,000 a day.

15 A. (Hall) Yes.

16 Q. And, in a storm, you have to double the staff, say, and
17 your cost goes to \$100,000, are you going to charge the
18 whole 100,000, including the 50,000 that would normally
19 be recovered through distribution rates, or are you
20 going to just recover the 50,000 that's caused by the
21 storm?

22 A. (Hall) The caveat earlier was I believe that's the case
23 with the call center. I believe we do the same thing
24 with the call center, and I can confirm that, that we

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[WITNESS PANEL: Baumann|Hall]

1 do with everyone else. And, it is the former, it's the
2 total cost. It's not just incremental cost.

3 Q. So, what happens to the 50,000 that you would have
4 incurred absent the storm? Does that get somehow
5 deducted from your distribution costs?

6 A. (Hall) No, no, because, to the extent that we had major
7 storms during a test year, those costs weren't included
8 in test year expenses for ratemaking purposes.

9 Q. So, it really has to be scrutinized in the test year
10 relative to what becomes the actual experience in
11 storms. I mean, if you had a normal test year, with
12 the typical \$1.7 million in storms, it seems like you
13 would be, and that increases dramatically, it seems
14 like you'd have a larger chunk that is essentially
15 being recovered twice, than not. Whereas, the opposite
16 would be the case, --

17 A. (Hall) Yes.

18 Q. -- if you had no storms, you would end up with more
19 costs being charged to distribution, without any
20 additional rate to recover that. Is that correct?

21 A. (Hall) That's generally true, with several caveats to
22 your comments. First of all, let's talk about the
23 issue of double recovery. I've had this discussion
24 with people many times, that you really can't trace

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[WITNESS PANEL: Baumann|Hall]

1 dollars from a test year to our rate level and conclude
2 "oh, those costs are being recovered." A test year is
3 basically a representative snapshot of what your costs
4 are going to be, proformed for a future period, and you
5 set rates accordingly. Once rates are set, you can't
6 determine one way or another whether a certain cost
7 incurred in a prospective period is already in a rate
8 level or not. The real determination of whether or not
9 you're recovering your costs in the future period when
10 you incur them is what's your rate of return. Is your
11 rate of return at or close to what was allowed in the
12 previous rate case?

13 So, I would argue that, to the extent
14 that a utility isn't earning its authorized rate of
15 return, there is no double recovery of any costs.
16 That's issue one.

17 Issue two is that, as you pointed out,
18 you know, assuming that you do match dollars somehow
19 and you do trace costs, really, whether you recover
20 more or less than what's in the rate level is a
21 function of whether major storm expense or I should say
22 the amount of hours spent on major storms is greater or
23 less in the future period than in the test year.

24 Thirdly, it's important to remember

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[WITNESS PANEL: Baumann|Hall]

1 that, when we have a major storm, the bulk of the labor
2 expense that we incur is for hourly paid employees,
3 where we call them in, they work extra during the
4 storm, and we pay them. Sometimes they're paid regular
5 time, if it's a line worker or a meter reader, and they
6 come in at 10:00 a.m., you know, they go from their
7 regular job to the storm, for a period of time they're
8 paid their regular labor rate. That goes into the
9 major storm account. But what happens with those field
10 type hourly workers is, once the storm ends, there's
11 all this work that they otherwise had to perform that
12 didn't get done. So, meter readers, a classic example,
13 what they have got to do is, the storm ends, now to
14 catch up on their meter reading routes, they've got to
15 work overtime. Weekends, nights, they have got to
16 catch up so that all the meters get read in the month.
17 They get paid overtime for catch-up. That overtime
18 doesn't go into the storm reserve. It's basically a
19 normal expense, just like any other expense.

20 So, there's a lot of different factors
21 that come into play. And, you know, the fact that
22 someone -- that straight time might be getting booked
23 to the storm reserve, and you can't necessarily
24 conclude that "oh, well, that's not incremental, and

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[WITNESS PANEL: Baumann|Hall]

1 it's already included in the rate level." There's just
2 too many other factors to consider, rather than looking
3 at that one item in isolation.

4 BY CHAIRMAN GETZ:

5 Q. So, basically, the baseline \$1.7 million is not an
6 incremental number, and it includes all costs related
7 to the storm. And, to the extent there is a
8 under-funding because of a greater forecasted number of
9 storms or expenses for storms than had been included in
10 the reserve, then there has to be a matching between
11 the baseline 1.7 million and whatever the costs are in
12 the period of April for the \$8 million?

13 A. (Hall) Generally, yes. The only thing that I would say
14 about the 1.7 million is that was a negotiated number.
15 I mean, that was just sitting down, going back and
16 forth with Staff and OCA. We agreed on \$1.7 million to
17 add to rates. You know, it was based on some
18 information that we had, but I couldn't give you a
19 calculation of a \$1.7 million amount, from the test
20 year or from anywhere else. It was a negotiated
21 resolution.

22 Q. Okay.

23 A. (Baumann) And, just to add to that. However, there was
24 a lot of scrutiny or review of --

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[WITNESS PANEL: Baumann|Hall]

1 A. (Hall) Absolutely.

2 A. (Baumann) -- prior year outages that had the total
3 costs in it. And, you know, as with all settlements,
4 everyone was relatively happy, if you will, with the
5 1.7 million as a reasonable amount to go forward with.
6 So, I think probably I would have answered slightly
7 different, saying that I think, while I think your
8 hypothetical is correct, that's it's probably more in
9 total cost than incremental.

10 CHAIRMAN GETZ: Mr. Eaton.

11 REDIRECT EXAMINATION

12 BY MR. EATON:

13 Q. Mr. Hall, this item has to do with two storms in April
14 of 2007.

15 A. (Hall) Okay.

16 Q. Was there a storm in January of 2007 that was included
17 in the original settlement?

18 A. (Baumann) Yes, there was.

19 A. (Hall) Yes. Thank you.

20 Q. So, if the year 2007 were test year, --

21 A. (Hall) Uh-huh.

22 Q. -- how would you handle those three storms?

23 A. (Hall) How would we have handled them?

24 Q. If 2007 was a test year for a rate case, how would you

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[WITNESS PANEL: Baumann|Hall]

1 handle the costs of those three storms?

2 A. (Hall) I'm sorry. Okay. All of the costs that we
3 incurred for the storm, labor, vehicle expense, and so
4 on, the costs I discussed earlier, straight time, plus
5 overtime labor, would have been booked and actually did
6 get booked to the reserve. If we used 2007 as a test
7 year, none of those costs would be included for the
8 purpose of setting distribution rates. Why? Because
9 they have all been put into the reserve.

10 Q. And, as far as ratemaking is concerned, what's the
11 concept behind that, as far as why do you separate out
12 major storms?

13 A. (Hall) Well, the reason for separating out major storms
14 was a result of the restructuring settlement. And, the
15 situation that we were in, when it came to
16 restructuring, is a lot of our costs were being
17 unbundled and now subject to reconciliation. The
18 earnings potential for PSNH, as a result of costs being
19 unbundled and reconciled, had now been reduced, and,
20 therefore, PSNH needed protection, to the extent that a
21 major storm happened, it could simply wipe out
22 earnings. So, during the restructuring negotiations,
23 we made the pitch for them, and the parties agreed, and
24 the Commission ultimately accepted the notion of a

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[WITNESS PANEL: Baumann|Hall]

1 Major Storm to provide that earnings protection. And,
2 that's really the rationale behind it. It's the kind
3 of cost that really is completely beyond the control of
4 the utility. I mean, its Mother Nature, it's an act of
5 God. There's really almost nothing we can do to
6 prevent the damage that occurs, because the damage is a
7 result of trees falling down. So, in order to provide
8 PSNH and other utilities, presumably, with that
9 protection, there's this notion of Major Storm Reserve,
10 where, to the extent that you incur a major storm, that
11 doesn't wipe out your earnings in a period, rather
12 there's this reserve where you -- the expense is booked
13 to a reserve, rather than being a hit to earnings.

14 MR. EATON: Thank you. That's all I
15 have on redirect.

16 CHAIRMAN GETZ: Okay. Is there anything
17 further for the witnesses?

18 (No verbal response)

19 CHAIRMAN GETZ: Hearing nothing, then
20 you're excused, gentlemen. Thank you.

21 WITNESS HALL: Thank you.

22 CHAIRMAN GETZ: Any other witnesses?

23 MS. AMIDON: No.

24 CHAIRMAN GETZ: Any objection to

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1 striking identifications and admitting the exhibits into
2 evidence?

3 (No verbal response)

4 CHAIRMAN GETZ: Hearing no objections,
5 they will be admitted as exhibits in this proceeding.
6 Anything else, before we give an opportunity for a
7 closing?

8 (No verbal response)

9 CHAIRMAN GETZ: Hearing nothing, then,
10 Ms. Hatfield.

11 MS. HATFIELD: Thank you, Mr. Chairman.
12 After hearing the testimony today, the OCA suggests that
13 the Commission should reduce PSNH's proposed rate increase
14 by the amount of \$500,000, which I believe Mr. Hall
15 testified has been discovered as an overcharge to PSNH
16 customers. We feel this is especially important in the
17 time when consumers are facing rising costs in all of
18 their energy bills. So, we would request the Commission
19 make that adjustment over the two year period. Thank you.

20 CHAIRMAN GETZ: So, it would be \$250,000
21 each year?

22 MS. HATFIELD: Yes.

23 CHAIRMAN GETZ: Okay. Ms. Amidon.

24 MS. AMIDON: Thank you, Mr. Chairman.

1 As the Commission knows, Staff is conducting an audit of
2 the major storm costs incurred in connection with those
3 April 2007 storms. And, while we recognize that the
4 witnesses today discussed a \$500,000 which was
5 inappropriately calculated, we would expect that the audit
6 will uncover other items which may be subject to
7 reconciliation. And, therefore, at this point,
8 understanding that we are waiting for Staff's audit, and
9 that the costs will be reconciled, we do not have an
10 objection to PSNH recovering the associated costs, the
11 \$5.5 million, over the next two years associated with
12 those storms in April.

13 CHAIRMAN GETZ: Is your position,
14 though, that subject to what the audit reveals, that there
15 may be a proposal to adjust the account accordingly?

16 MS. AMIDON: Correct. Subject to the
17 audit, and also whatever PSNH does with respect to the
18 insurance carrier, where there may be some additional
19 monies recovered from the insurance carrier, yes, we would
20 support it at this point. And, just acknowledge that it
21 will be subject to reconciliation based on Staff's audit
22 and on further information provided by the insurance
23 carrier.

24 Yes. And, Mr. Mullen just reminded me

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1 that these rate changes that the Commission is hearing
2 today are to go into effect for July 1 for bills rendered
3 on and after July 1. And, for administrative efficiency,
4 it's better to proceed at this point with accepting the
5 5.5 million, and reconcile it once we get the results of
6 the Staff's audit, perhaps in another proceeding that will
7 take place later this year.

8 CHAIRMAN GETZ: Okay. Mr. Eaton.

9 MR. EATON: Thank you, Mr. Chairman.
10 The Company wishes to begin recovery of this adjustment.
11 And, it's subject to reconciliation based upon more
12 information known, such as any insurance proceeds or the
13 result of the audit. And, I think customers are protected
14 from any overcollection, because the balance is accounted
15 for and will be reflected in the next rate case.

16 So, I think it's just and reasonable
17 that we go forward with this, subject to some items that
18 we don't have an answer to right now, such as the
19 insurance proceeds and the results of the audit.

20 CHAIRMAN GETZ: Okay. Thank you.

21 Anything further?

22 (No verbal response)

23 CHAIRMAN GETZ: Okay. Then, we will
24 close the hearing in docket DE 08-071 and take that matter

1 under advisement.

2 (Whereupon the hearing ended at 9:59
3 a.m.)

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