

Witness: Robert A. Baumann
Request from: New Hampshire Public Utilities Commission Staff

Question:

Exhibit 8 - (i) Reference Exhibit 2, RAB-3, Page 6, line 18 --- Is the \$10 million fuel adjustment discussed in the Technical Statement filed on December 2, 2008, included in the fossil fuel inventory included in the exhibit. If not, what is the reason for the increase in the inventory value? (ii) Please clarify the accounting used to adjust the fuel inventory.

Response:

(i). The \$54.3 million fossil fuel balance for December 2008 is an estimate that came from forecast data. It has not been updated for the estimated \$10 million fuel inventory adjustment.

PSNH closes its accounting books quarterly. Therefore, PSNH calculates its rate base, including fuel inventory, only at the end of each quarter. The rate base calculated at the end of the quarter is then used in the Energy Service (ES) estimate calculation for the subsequent two months (i.e. the September actual quarter ended rate base is used for October and November). The December 2008 inventory estimate (\$54 million) did not change from the initial ES filing of September 12, 2008 and reflects the forecasted value. This value is larger than the previous quarter's actual value (\$36 million) primarily due to the assumed increased inventory requirements for the upcoming winter. The December 2008 value (\$54 million) is reasonable compared to the June 2008 actual value of \$49 million which reflected a higher inventory requirement for the upcoming summer. In addition, the December 2008 value (\$54 million) is also reasonable compared to the average 2009 inventory value of \$47 million used in the estimates for 2009, RAB-2, page 6, line 18. As noted at the hearing on December 4, 2008 a \$10 million change in rate base for an entire year is worth about \$1 million in revenue requirements.

(ii). PSNH expects the fuel inventory adjustment to be finalized by the 2008 year-end closing. Once finalized, PSNH will make the following entries:

To write up inventory:

DR Fossil fuel inventory X
CR Fuel expense X

To record a regulatory obligation to be refunded to customers in the 2009 ES rate:

DR Regulatory deferrals X
CR Deferred ES regulatory obligation X