

THE STATE OF NEW HAMPSHIRE

**BEFORE THE
PUBLIC UTILITIES COMMISSION**

**DIRECT TESTIMONY OF
STEPHEN R. HALL**

Petition to Recover Pre-Staging Costs Through Major Storm Cost Reserve

October 26, 2012

Docket No. DE 12-XXX

1 **Q. Please state your name, business address and position.**

2 A. My name is Stephen R. Hall. My business address is PSNH Energy Park, 780 North
3 Commercial Street, Manchester, New Hampshire. I am the Manager – New Hampshire
4 Revenue Requirements for Public Service Company of New Hampshire (“PSNH”).

5 **Q. Have you previously testified before this Commission?**

6 A. Yes, I have testified before the Commission on numerous occasions over the past thirty
7 years.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to describe (i) the function of the Major Storm Cost
10 Reserve (“Reserve” or “MSCR”); (ii) how advanced planning costs would be charged to
11 the MSCR if the Commission approves PSNH’s proposal described in the testimony of
12 David Bickford; and (iii) how such costs would ultimately be recovered from PSNH’s
13 customers via the MSCR if the anticipated weather event did not meet the specific
14 conditions required to be considered a Major Storm.

1 **Q. Please provide a brief background of the MSCR and its purpose.**

2 **A.** The MSCR was established under the “Agreement to Settle PSNH Restructuring”
3 (Restructuring Settlement) approved by the Commission in Docket No. DE 99-099. The
4 MSCR’s initial annual funding level was \$3 million, but that amount has changed over
5 the last several years.
6 Under the MSCR, PSNH recovers from customers through its distribution rates a
7 specified annual amount to be used in the event that a Major Storm occurs. PSNH
8 simultaneously records a liability into its MSCR equal to the amount that it recovers from
9 customers so that the recovery does not result in earnings accruing to PSNH. Costs
10 incurred by PSNH for restoration of service during a weather event qualifying as a Major
11 Storm are charged to the MSCR. As a result, when a qualifying event occurs, there is no
12 impact on PSNH’s earnings.

13 **Q. What types of costs are charged to the MSCR?**

14 **A.** Costs that can be charged against the MSCR include employee labor, vehicle expenses,
15 and expenses related to the use of contract crews. The MSCR provides a mechanism
16 whereby future costs to be incurred by PSNH during a major storm are recovered from
17 customers prior to the storm event, which will then be used to currently off-set actual
18 costs when they are incurred. The MSCR provides a matching of costs incurred with
19 recoveries, which allows PSNH to avoid sharp swings in earnings, both up and down, In
20 addition, the MSCR provides a smoothing effect against significant storm costs by
21 providing for the recovery of major storm costs on a gradual basis, which mitigates sharp
22 rate changes to customers’ bills. The MSCR recognizes that major storms will at some
23 point occur and funds those anticipated costs over a period of time

1 **Q. What is the definition of a Major Storm?**

2 A. A Major Storm is defined as an event that results in either: a) 10% or more of PSNH's
3 retail customers being without power in conjunction with more than 200 reported
4 troubles; or b) more than 300 reported troubles during the event. The costs incurred for
5 storm restoration activities that do not meet the major storm criteria are currently absorbed
6 by PSNH. With the exception of costs incurred for pre-staging resources as described by
7 Mr. Bickfors, this will continue under our proposal.

8 **Q. What is the current funding level of the MSCR?**

9 A. The MSCR is currently funded at a level of \$7 million annually. In Order No. 25,382 in
10 Docket No. DE 12-110, the Commission approved PSNH's request to increase funding of
11 the MSCR by \$3.5 million annually effective July 1, 2012 to this \$7 million level.

12 **Q. How is the MSCR funded?**

13 A. The MSCR is funded from all retail customers through distribution rates.

14 **Q. What happens if storm costs exceed the balance in the MSCR?**

15 A. If major storm costs exceed the balance in the MSCR, such costs are deferred for future
16 recovery (i.e., the balance in the MSCR becomes negative). At the time of a Major
17 Storm, there is no change to rate level until the Commission authorizes a change to rates
18 regarding the funding of the MSCR. Balances in the MSCR can be recovered from (or
19 refunded to) customers with interest at the time that distribution rates are changed as a
20 result of changes to the MSCR balance.

21 **Q. What is the current balance of the MSCR?**

22 A. As of June 30, 2012, the balance in the MSCR was approximately \$8.2 million which is
23 currently available to fund storm costs. Not included in this figure are the costs that

1 PSNH has incurred associated with Hurricane Irene (\$7.1 million) and the October 2011
2 snowstorm (\$15.7 million). Including these costs in the MSCR would result in a net
3 negative balance of \$14.6 million to the fund. This negative balance was addressed by
4 the Commission in its approval of the MSCR \$7 million annual funding level (Order No.
5 25,382).

6 **Q. Does the MSCR allow for the review of charges?**

7 A. Yes, all charges to the MSCR are subject to audit by the Commission Staff, and
8 ultimately approval by the Commission.

9 **Q. Why is PSNH proposing that the pre-staging of crews prior to an event qualify for**
10 **inclusion as an item to be charged to the MSCR?**

11 A. PSNH is making this proposal as a way to fund the necessary expenditures associated
12 with pre-staging of crews if a Major Storm event is expected, as discussed in Mr.
13 Bickford's testimony. Under current practice, if the weather event does materialize into a
14 Major Storm, any pre-staging costs would be charged to the MSCR, as such costs would
15 be costs that qualify under the MSCR. However, if PSNH conducts pre-staging and the
16 event does not escalate to the level of a Major Storm, without MSCR treatment for pre-
17 staging costs, PSNH would have no ability to recover such costs. Therefore, there is a
18 large financial disincentive for PSNH to conduct pre-staging, since it would be unable to
19 recover such costs (which could exceed \$1 million per event) if the forecasted event does
20 not materialize into a Major Storm.

21 **Q. What would trigger PSNH's decision to conduct pre-staging?**

22 A. As described in Mr. Bickford's testimony, criteria will be established that will trigger
23 planning activities, including the pre-staging of contract crews in PSNH's service
24 territory. These pre-established criteria will also trigger the approval of funding for the

1 pre-staging of crews and other planning expenses, via the MSCR. This is consistent with
2 the funding of pre-staged crews established in Unitil Energy Systems, Inc., Docket No.
3 DE 10-055 and approved by the Commission in Order No. 25,214.

4 **Q. If crews are pre-staged, and the expected weather event does not occur, would pre-**
5 **staging costs be charged to the MSCR?**

6 A. Yes, if the approved criteria were met. If those criteria are met, crews are pre-staged, and
7 the storm event does not materialize, the costs associated with the pre-staging would be
8 charged to the MSCR. To clarify, the existence of the approved criteria will allow pre-
9 planning activities to be charged to the MSCR, not the actual weather event.

10 **Q. Will there be any impact on PSNH's distribution rates as a result of the**
11 **Commission's approval of this proposal?**

12 A. Yes, but only in the long run. As described by Mr. Bickford, pre-staging of crews can
13 potentially reduce the cost associated with restoration of a Major Storm, thus reducing the
14 amount of costs charged to the MSCR and ultimately reducing distribution rates from the
15 level at which they would otherwise be absent approval of PSNH's proposal. However,
16 if the event does not materialize into a Major Storm, pre-staging costs would ultimately
17 be recovered from customers through the operation of the MSCR. Such recovery could
18 take the form of a small future increase to the level of funding of the MSCR than would
19 otherwise be the case absent approval of PSNH's proposal.

20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.