

1 **STATE OF NEW HAMPSHIRE**2 **PUBLIC UTILITIES COMMISSION**3
4 **June 20, 2013** - 11:03 a.m.
5 Concord, New Hampshire

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6
7 **RE: DE 13-127**
8 **PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:**
9 ***Petition for a step adjustment.***10 **PRESENT:** Chairman Amy L. Ignatius, Presiding
11 Commissioner Michael D. Harrington

12 Clare Howard-Pike, Clerk

13
14 **APPEARANCES:** **Reptg. Public Service of New Hampshire:**
15 Matthew J. Fossum, Esq.16 **Reptg. Residential Ratepayers:**
17 Susan Chamberlin, Esq., Consumer Advocate
18 Stephen R. Eckberg
19 Office of Consumer Advocate20 **Reptg. PUC Staff:**
21 Suzanne G. Amidon, Esq.
22 Steven E. Mullen, Asst. Dir./Electric Div.23 Court Reporter: Steven E. Patnaude, LCR No. 52
24

ORIGINAL

I N D E X**PAGE NO.**

WITNESS PANEL: MICHAEL L. STELNITZ
STEPHEN R. HALL

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Petition for a Step Adjustment, including the Technical Statement of Michael L. Shelnitz and Stephen R. Hall, with attachments (04-30-13)	7
2	RESERVED (Record request for PSNH to provide examples of typical items that are included in the description of "reliability improvements" in various service areas found in Attachment SRH/MLS-1, on Pages 7 & 8)	33

P R O C E E D I N G

CHAIRMAN IGNATIUS: I'd like to open the hearing in Docket DE 13-127. This is Public Service Company of New Hampshire's petition for a step adjustment in its distribution rates, making five changes. The Company has requested an addition of 6.1 million in revenue requirement as a result of new plant in service; also requesting an increase to its Major Storm Cost Reserve; an increase of funds to reflect changes in net plant that are different than the one I mentioned before, and you'll have to explain what the distinctions are, because I don't think I can find that quickly; an adjustment regarding the marketing of its Renewable Default Service rate, that's a reduction; and an adjustment to reflect retaining an independent consultant to review the Company's uncollectible expense.

Let's begin with appearances please.

MR. FOSSUM: Good morning. Matthew Fossum, for Public Service Company of New Hampshire.

CHAIRMAN IGNATIUS: Good morning.

MS. CHAMBERLIN: Susan Chamberlin, Consumer Advocate, and with me today is Stephen Eckberg.

MS. AMIDON: Suzanne Amidon, for Commission Staff. With me today is Steve Mullen, the

[WITNESS PANEL: Stelnitz~Hall]

1 Assistant Director of the Electric Division.

2 CHAIRMAN IGNATIUS: Good morning,
3 everyone. Do we have anything to take up before evidence?

4 (No verbal response)

5 CHAIRMAN IGNATIUS: All right. Seeing
6 nothing, then, Mr. Patnaude, will you swear the witnesses.

7 (Whereupon **Michael L. Stelnitz** and
8 **Stephen R. Hall** were duly sworn by the
9 Court Reporter.)

10 **MICHAEL L. STELNITZ, SWORN**

11 **STEPHEN R. HALL, SWORN**

12 **DIRECT EXAMINATION**

13 BY MR. FOSSUM:

14 Q. Good morning. And, let's start with Mr. Shelnitz.
15 Could you please state your name, place of employment,
16 and responsibilities for the record in this docket
17 please.

18 A. (Shelnitz) Yes. My name is Michael Shelnitz. I am
19 Team Lead for PSNH Revenue Requirements. My primary
20 responsibility is for the calculation of revenue
21 requirements associated with Public Service of New
22 Hampshire, as well as the calculations for filings
23 related to the Energy Service reconciliation,
24 Transmission Cost Adjustment Mechanism, and Stranded

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1 Cost reconciliation filings.

2 Q. Thank you. And, Mr. Hall, could you state your name,
3 place of employment, and responsibilities for the
4 record please.

5 A. (Hall) My name is Stephen R. Hall. I am Revenue
6 Requirements Manager for PSNH. I'm responsible for
7 document management and regulatory strategy. And, I
8 also have supervisory responsibility for PSNH's revenue
9 requirements.

10 Q. Thank you. Now, back on April 30th, did you, Mr. Hall
11 and Mr. Shelnitz, file a joint Technical Statement in
12 this docket?

13 A. (Shelnitz) Yes.

14 A. (Hall) Yes, we did.

15 Q. And, was that Technical Statement and the accompanying
16 attachments, were those prepared by you or under your
17 direction?

18 A. (Shelnitz) Yes.

19 A. (Witness Hall nodding in the affirmative).

20 Q. And, do you have any changes or updates that you'd like
21 to make to the Technical Statement today?

22 A. (Shelnitz) I do not.

23 MR. FOSSUM: I would offer then for the
24 first exhibit for identification the April 30th, 2013

1 filing of the Technical Statement of Mr. Shelnitz and Mr.
2 Hall.

3 CHAIRMAN IGNATIUS: So marked as
4 "Exhibit 1" for identification.

5 (The document, as described, was
6 herewith marked as **Exhibit 1** for
7 identification.)

8 BY MR. FOSSUM:

9 Q. Now, Mr. Shelnitz and Mr. Hall, as may be appropriate,
10 would you please very briefly summarize the requests
11 that are being made by the Company in this docket, as
12 identified in your Technical Statement, keeping in mind
13 that the Chairman has asked for, in particular, an
14 explanation of the differences between the plant
15 adjustments that the Company is proposing.

16 A. (Shelnitz) I'm sorry, what was the last part?

17 Q. It's my understanding that the Chairman has asked for a
18 specific description of the difference between the step
19 adjustments for non-REP net plan and the adjustment for
20 REP plant. So, I just wanted to make sure that that is
21 made clear.

22 A. (Shelnitz) Yes. In today's proceeding, we are
23 requesting an increase in distribution rates associated
24 with increased revenue requirements related to -- well,

1 actually, increased and decreased revenue requirements
2 associated with the five items that Commissioner
3 Ignatius went over before. Two of those -- well, let's
4 start with the largest item. The largest item is a 6.
5 -- a request for a \$6.1 million increase associated
6 with changes to net distribution plant. These are just
7 changes to non-REP, non-Reliability Enhancement Program
8 plant adds or changes. As opposed to Reliability
9 Enhancement Program plant changes, which are the
10 \$1.6 million increase. The changes to the net
11 distribution plant of 6.1 million are done through a
12 formula calculation that was established in the
13 settlement in Docket DE 09- --

14 A. (Hall) 035.

15 A. (Shelnitz) -- 35. And, so, there was a methodology
16 that was determined in that docket for calculating the
17 increases to distribution net plant. If certain
18 criteria -- if certain levels were met, both at the
19 increase in distribution plant or the change in
20 distribution plant for a particular year, as indicated
21 in the settlement, there would be an automatic change
22 in the distribution revenue requirement for that
23 particular year's calculation.

24 In the case of this year, 2013, those

1 two criteria were not met. So, there is a -- there is
2 a calculation that you perform to get to the allowed
3 level of distribution revenue requirement increase
4 associated with the actual increase in distribution net
5 plant.

6 That is contrasted with the Reliability
7 Enhancement Program increase of 1.6 million that we are
8 requesting in this docket, which is simply a level that
9 was built into the settlement. That, for rates
10 beginning July 1, 2013, there would be a \$1.6 million
11 increase associated with the Reliability Enhancement
12 Program net plant.

13 So, we are requesting those two changes,
14 as well as the other changes that were mentioned by
15 Commissioner Ignatius. An increase in the Major Storm
16 Reserve funding of 5 million per year, and we can go
17 into why we're requesting that. And, as well as two
18 decreases, I know that these are small dollar amounts,
19 but they were amounts that were built into prior step
20 adjustment filings -- well, the first one was, the
21 consultant expense, was built into a prior step
22 adjustment filing. It was specific to an uncollectible
23 study that was being performed by a consultant. That
24 work has since been completed. So, we are lowering the

1 rate for that. And, then, there is a marketing expense
2 amount that we are proposing to lower the rate for,
3 that was related to the Renewable Default Energy
4 Service rate, which has not been taken up by customers.
5 And, so, we are discontinuing the marketing program
6 associated with that.

7 Q. And, just for clarity, I'd like to go back to the net
8 plant items. Could you very briefly describe what type
9 of item would be considered "non-REP net plant", as
10 opposed to the types of items that might be considered
11 as "REP net plant".

12 A. (Hall) The type of item that would be "non-REP" would
13 be any investment in plant that is made to meet load
14 growth or is an investment that is made in the normal
15 course of business. In contrast, the Reliability
16 Enhancement Program is for specific investments that
17 are made for the purpose of improving system
18 reliability. And, they are separately identified, and
19 we track the activity associated with REP, to ensure
20 that the amount that we spend, in both capital and O&M,
21 equals the revenue level included in our distribution
22 rates, as provided for under a couple of different
23 settlements in the last two rate cases.

24 Q. Thank you. Could you also explain briefly why the

1 change proposed for the Major Storm Cost Reserve
2 funding and the amount of money that has been proposed
3 for that change.

4 A. (Hall) Sure. The best way to explain this is to look
5 at Attachment SRH/MLS-2. And, that attachment shows
6 the net balance of unrecovered major storm costs as of
7 March 31, 2013. The upper part shows the cost of the
8 storms, and then we subtract out a balance in the Major
9 Storm Cost Reserve, to get a net under- or overrecovery
10 of costs. And, what we found is that, as of the end of
11 March 2013, the Major Storm Cost Reserve balance was
12 about 13.7 million, whereas the deferred major storm
13 cost was 37.7 million, which means we're \$24 million
14 short.

15 So, what we did is we projected out the
16 amount that we would need by the end of -- by the
17 middle of 2015, two years from now, to essentially
18 break even, so that the amount of dollars in the
19 reserve was equal to deferred storm costs, assuming
20 that there are no additional major storms in that
21 two-year period. And, we found that that additional
22 amount needed would be approximately an additional
23 \$10 million over the two-year period. And, as a
24 result, we're proposing increasing the amount that we

1 recover through distribution rates for the purpose of
2 funding the Major Storm Cost Reserve by \$5 million
3 annually.

4 Q. So, for clarity, is the Company requesting that any
5 particular storm-related costs are to be recovered by
6 this change?

7 A. (Hall) No. Storm costs have to be reviewed and audited
8 by Staff. Once they get reviewed by Staff, and Staff
9 signs off on them, we then, in effect, remove those
10 deferred costs from our books and correspondingly
11 reduce the balance in the Major Storm Cost Reserve.

12 Q. Thank you. Now, also for clarity, this balance of the
13 Major Storm Cost Reserve deferral that you've referred
14 to on SRH/MLS-2. Does that -- that includes
15 pre-staging costs?

16 A. (Hall) Yes, it does.

17 Q. And, are those pre-staging costs permitted to be
18 recovered through the Major Storm Cost Reserve?

19 A. (Hall) They are pursuant to an order the Commission
20 issued in February 2013.

21 Q. And, very briefly, could you just describe the --
22 excuse me -- the criteria that permit pre-staging costs
23 to be included for recovery through the Major Storm
24 Cost Reserve?

1 A. (Hall) Certainly. As part of the docket on pre-staging
2 costs, the Commission approved a mechanism in which, if
3 we pre-staged, and the forecasting service that we
4 utilize for predicting the severity of the storm met
5 certain criteria, then, those pre-staging costs could
6 be deferred and recovered through the Major Storm Cost
7 Reserve. The whole purpose of a recovery of
8 pre-staging costs is to remove the disincentive that
9 would otherwise exist for a utility to pre-stage. If
10 there is no cost recovery allowed for pre-staging, and
11 the utility does pre-stage, and then the storm doesn't
12 materialize into a major storm, the utility has no way
13 of recovering those dollars.

14 So, in that docket, the Commission
15 approved that mechanism. Basically, if we decide to
16 pre-stage, and the weather forecasts indicate that the
17 criteria for severity have been met, then, those
18 pre-staging costs are allowed to be deferred and
19 ultimately recovered through the Major Storm Cost
20 Reserve.

21 Q. And, just to complete that thought, I guess, if the
22 Company makes the decision to pre-stage, but,
23 ultimately, the forecast does not result -- does not
24 demonstrate the criteria that were established for

1 recovery through the Major Storm Cost Reserve, the
2 costs -- what happens to the costs related to that
3 pre-staging?

4 A. (Hall) Well, we wouldn't be able to recover them, if we
5 never met the criteria. But, if that occurred, we had
6 submitted some testimony saying that we would review
7 those incidents with Staff on a case-by-case basis; no
8 such incidents have occurred thus far.

9 Q. Now, is it your understanding that each of the rate
10 changes, the five items that are requested today, are
11 consistent with the settlement in Docket DE 09-035?

12 A. (Hall) Yes.

13 Q. And, one final question. Will a decision to change
14 PSNH's distribution rates, consistent with its
15 proposal, conform with the most recently filed and
16 found adequate Least Cost Integrated Resource Plan for
17 PSNH?

18 A. (Hall) Yes.

19 MR. FOSSUM: Thank you. I have nothing
20 further.

21 CHAIRMAN IGNATIUS: Thank you.

22 Ms. Chamberlin.

23 MS. CHAMBERLIN: Thank you.

24 **CROSS-EXAMINATION**

1 BY MS. CHAMBERLIN:

2 Q. Mr. Hall, you testified that the Commission issued an
3 order on February 26, 2013 approving the pre-staging
4 costs collection, is that correct?

5 A. (Hall) Yes. I believe I said "February 2013". I
6 didn't recall the date.

7 Q. Oh. Okay.

8 A. (Hall) I'll accept February 26th.

9 Q. And, you will agree that two of the storms for which
10 you are seeking pre-staging recovery occurred before
11 that date?

12 A. (Hall) Yes. It may well have been three.

13 Q. December 27th, 2012, February 8, 2013, and one more
14 storm, which was very close, February 27th, 2013.

15 A. (Hall) Okay. I stand corrected. It was two.

16 Q. Okay. But those -- that's consistent with your
17 recollection?

18 A. (Hall) Yes.

19 Q. All right. Thank you. On Exhibit 1, there's a
20 footnote on Page 3 that gives the dates of the storms
21 and the amount of the pre-staging costs being
22 requested.

23 On a separate matter, a proposal in the
24 Company's filing is to change some treatment of tree

1 trimming costs in terms of accounting, to change it
2 from O&M to capitalization, is that correct?

3 A. (Hall) Yes.

4 Q. And, you are proposing to include that change in this
5 step adjustment, correct?

6 A. (Hall) Yeah, I wouldn't characterize it that way. The
7 step adjustment has already been determined. The
8 change that you're referring to relates to Reliability
9 Enhancement Program trimming. And, with regard to the
10 Reliability Enhancement Program, the step adjustment
11 was pre-specified at "1.6 million" under the settlement
12 in the last rate case, and that increase is to occur
13 July 1, 2013.

14 The other thing, the other minor
15 difference is, it's not clear to me whether we're
16 actually proposing that the Commission approve this
17 change in accounting. And, I would have to talk to the
18 accountants about this, it may well be that we are
19 required to do it, under Generally Accepted Accounting
20 Principles. But I would need to have one of our
21 accountants confirm that.

22 Q. This is the first time it has come before this
23 Commission, as you previously would count it as O&M,
24 and now you're proposing it to be capitalized?

[WITNESS PANEL: Stelnitz~Hall]

1 A. (Hall) Yes. I agree with that.

2 Q. And, we don't know the exact financial implication of
3 that at this point or do you have that data?

4 A. (Shelnitz) Well, in terms of related to this filing, if
5 this was an item that was capital -- well, the
6 Reliability Enhancement Program dollars or net plant
7 additions serve as a reduction to this calculation that
8 is calculating a distribution rate increase associated
9 with capital, with plant adds, with plant additions.
10 So, in this context, it's reducing that overall
11 calculation.

12 A. (Hall) Right.

13 Q. It would then go into another account, correct? So, it
14 would -- might reduce it for this proceeding, but it
15 would show up again somewhere else?

16 A. (Shelnitz) Maybe in a future rate case, when the new
17 rate base level is set.

18 A. (Hall) Are you saying that, if this was treated as O&M,
19 instead of capital, what would the implication be? Is
20 that what you're getting at?

21 Q. Yes. That's what I was trying to get at, yes.

22 A. (Hall) Two things. Number one, as Mr. Shelnitz
23 testified, in order to determine the amount of
24 distribution step increase, the non-REP amount, we look

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[WITNESS PANEL: Stelnitz~Hall]

1 at the total increase in net plant, and we subtract out
2 the REP-related capital associated with that, --

3 Q. Yes.

4 A. (Hall) -- with total net plant. That REP capital
5 includes the dollars at issue that we're talking about.
6 These, I think it's hazard tree removal near
7 rights-of-way, which have been capitalized in -- as of
8 the end of 2012. So, we'd have to go back and
9 recalculate the distribution step increase, and it
10 would be higher, because we would now be removing less
11 REP capital, I don't know the amount.

12 The other thing that we would have to
13 do, though, is we would have to now significantly
14 revise our REP spending. If you recall under REP, what
15 we do is we have a certain revenue level in rates.
16 And, we incur enough revenue requirements to
17 essentially meet the revenue level that's in rates.
18 The revenue requirements are a combination of O&M, plus
19 revenue requirements associated with capital. Those
20 two amounts, what we do is we would plan our REP
21 activities so that the total amount is approximately
22 equal to the level of REP revenue in rates. If we now
23 removed a significant amount of capital from that
24 calculation, and put it into the O&M side of the

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1 equation, it would significantly increase REP O&M
2 spending, and it would have to significantly decrease
3 the capital amount. So, we would have to rethink and
4 revise our REP plans and do things differently to meet
5 the level of revenue that's in our distribution rate
6 level.

7 Q. And, --

8 A. (Hall) I'm sorry.

9 Q. And, well, all of that calculation is because you're
10 under a rate agreement, under the Settlement Agreement
11 for the distribution rates?

12 A. (Hall) Yes.

13 Q. Okay. So, my typical -- my limited understanding is
14 that, when you put -- when you capitalize something,
15 you then earn a rate of return on it. And, when you
16 put it in O&M, it's expensed. So, my concern is, if
17 you have now taken this, you know, we estimate to be
18 about 2.3 million, if you've taken that amount and you
19 are now putting it into capitalization, that you are
20 now going to earn a rate of return on that, which is
21 money from ratepayers to shareholders.

22 A. (Hall) And that, to put things in perspective, the
23 return on 2.3 million is about little over \$100,000.
24 So, I -- well, after taxes, it's a little over

1 \$100,000; before taxes, it's probably more like 150 or
2 \$160,000. So, I just want to put in perspective the
3 amount of return we're talking about.

4 Q. Well, that was one question I didn't have answered, is
5 how much --

6 A. (Hall) I mean, I'm doing some mental math. I'm using
7 an approximate 10 percent return, about a 50 percent
8 equity ratio. You multiply 2.3 million by 10 percent,
9 gives you 230 grand, 50 percent equity ratio brings you
10 to 115 grand. To determine the rate impact for that,
11 you've got to divide by the effective tax rate, you've
12 got to gross it up for taxes. So, you'd be in the 150,
13 \$160,000 annual revenue level reduction.

14 But what that would mean is, we are now
15 spending 2.3 million more in REP O&M. And, that's a
16 lot more O&M to spend, so that we would have to
17 significantly revamp our REP spending plans. We'd have
18 to really rethink, "Okay, how do we now do this and
19 maintain REP spending under the revenue level that's in
20 our distribution rates?"

21 Q. Mr. Eckberg is pointing out that this adjustment wasn't
22 made until November and December of 2012. So, the
23 money was really already spent, and then it was
24 adjusted for accounting. Do you have that level of

1 familiarity with the details?

2 A. (Hall) I'm not sure I follow your question.

3 (Atty. Chamberlin conferring with
4 Mr. Eckberg.)

5 BY MS. CHAMBERLIN:

6 Q. Once the Commission makes this determination that, if
7 they do, that these expenses can be capitalized,
8 instead of placed in O&M, you will continue to do that
9 from now on, correct?

10 A. (Hall) Yes.

11 MS. CHAMBERLIN: Yes. Okay. Thank you.
12 That's all.

13 CHAIRMAN IGNATIUS: Thank you. Ms.
14 Amidon.

15 MS. AMIDON: Thank you. Good morning.

16 WITNESS HALL: Good morning.

17 BY MS. AMIDON:

18 Q. As the witnesses have testified, these changes are
19 proposed pursuant to a Settlement Agreement in PSNH's
20 most recent distribution rate case, in Docket 09-035.
21 That's right, isn't it?

22 A. (Hall) Yes.

23 A. (Shelnitz) Yes.

24 Q. And, in that proceeding, there was also, in the

1 Settlement Agreement, requirement that, in the case the
2 Company experienced an exogenous event during the
3 calendar year, that they would report that no later
4 than March 31st of each year?

5 A. (Hall) Yes.

6 Q. And, subject to check, because I don't know if you
7 received a copy of this letter, but Attorney Fossum, on
8 behalf of the Company, filed the letter on March 29th,
9 2013, indicating that "No exogenous events occurred
10 during calendar year 2012." Is that consistent with
11 your understanding?

12 A. (Hall) Yes.

13 Q. Okay. So, I just wanted for the record to cross that
14 "t". Now, the parties have made reference to the
15 docket or the proceeding considering recovery of
16 pre-staging costs. And, for the record, I thought it
17 would be helpful to note that the docket number in that
18 proceeding is 12-320, and the order in question is
19 Order Number 25,465, dated February 26, 2013. And, in
20 that order, the Commission approved PSNH proposed
21 criteria for determining when pre-staging costs
22 incurred to allow those costs to be charged to the
23 Major Storm Cost Reserve. Is that right?

24 A. (Hall) Yes.

1 Q. And, so that subject to -- to be eligible for recovery,
2 first of all, the Company has to use this set of
3 criteria and has to demonstrate that the storm that was
4 anticipated would be a qualifying major storm under the
5 criteria, is that correct?

6 A. (Hall) Yes.

7 Q. And, secondly, any such costs would be subject to the
8 standard audit by the Staff to determine whether those
9 costs were prudently incurred, is that fair to say?

10 A. (Hall) Yes.

11 Q. And, this filing that you made in Docket 12-320 was
12 made in part in response to a report issued by the
13 Commission regarding the October 2011 snowstorm, is
14 that right?

15 A. (Hall) Yes.

16 Q. And, in that report, the Commission basically said that
17 "Restoration of power is an essential utility function
18 and proper pre-staging is an important element in
19 ensuring the timely restoration of service." Is that
20 your recollection?

21 A. (Hall) That sounds familiar.

22 Q. Okay. Thank you. Insofar as the -- as the reduction
23 goes, you, obviously, took out or proposed to remove
24 certain consultant costs related to the uncollectible

[WITNESS PANEL: Stelnitz~Hall]

1 issue from distribution rates, is that right?

2 A. (Hall) Yes.

3 Q. And, in addition, you're proposing to remove the
4 marketing costs for the Renewable Default Energy
5 Service product, is that right?

6 A. (Hall) Yes.

7 Q. And, is it fair to say that Staff and the OCA agreed
8 with, given the low participation in the Renewable
9 Service Option, that it was appropriate to discontinue
10 marketing of the program, and to cease, you know,
11 incurring those costs for customers?

12 A. (Hall) Yes, I agree.

13 MS. AMIDON: Thank you. Just one
14 moment.

15 (Atty. Amidon conferring with
16 Mr. Mullen.)

17 MS. AMIDON: Mr. Mullen has some
18 questions related to an issue that's been brought up in
19 cross-examination.

20 CHAIRMAN IGNATIUS: That's fine. Please
21 proceed.

22 MS. AMIDON: Thank you.

23 MR. MULLEN: Actually, more than one
24 issue. Good morning.

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[WITNESS PANEL: Stelnitz~Hall]

1 WITNESS HALL: Good morning.

2 WITNESS SHELNITZ: Good morning.

3 BY MR. MULLEN:

4 Q. With respect to the pre-staging costs and the criteria
5 for -- that have to be met for pre-staging costs to be
6 eligible for recovery through the Major Storm Reserve,
7 the existence of that mechanism, does that drive the
8 Company's decision whether to pre-stage or not or how
9 is that done?

10 A. (Hall) No. The existence of a mechanism merely
11 dictates whether or not pre-staging costs can be
12 deferred and, therefore, recovered through the Major
13 Storm Cost Reserve.

14 Q. Because, when it comes to pre-staging, many times the
15 Company will have to make the decision days ahead of
16 time?

17 A. (Hall) Yes. A good example is that, if there's a
18 hurricane forecasted to come up the East Coast, you may
19 have to make a decision to pre-stage, you know, three
20 days or so, two or three days before it hits. And, you
21 may not have yet met the criteria that the Commission
22 approved for deferral of pre-staging costs, because the
23 weather forecasts are too uncertain that forecasters
24 can't predict with a reasonable degree of certainty

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1 what the severity of the storm will be. But,
2 nevertheless, if you didn't pre-stage, then, all
3 available resources would be taken up elsewhere. And,
4 if the storm did hit, you'd have a problem.

5 Q. And, so, it could be that, you know, if the storm
6 doesn't materialize, and it doesn't meet the
7 criteria, --

8 A. (Hall) Uh-huh.

9 Q. -- that the costs would not be eligible for recovery
10 through the Major Storm Reserve?

11 A. (Hall) Correct.

12 Q. But, in any case, you still have to make a decision
13 whether to pre-stage or not?

14 A. (Hall) Yes.

15 Q. Okay. Thank you. Regarding the capitalization of
16 certain costs associated with tree removal, I just want
17 to be clear. That is not your garden variety
18 vegetation management tree trimming?

19 A. (Hall) No. This is hazard tree removal.

20 Q. I believe it's your -- your Enhanced Tree Trimming
21 Program?

22 A. (Hall) Yes.

23 Q. And, am I correct that that's essentially ground-to-sky
24 or removal of the entire tree?

[WITNESS PANEL: Stelnitz~Hall]

1 A. (Hall) Yes. It's hazard tree removal near
2 rights-of-way.

3 Q. Okay.

4 A. (Hall) That's my understanding.

5 Q. So, once you remove it, you never have to go back and
6 trim it?

7 A. (Hall) Correct. And, I think that's what largely drove
8 the decision to capitalize it, as compared to expensing
9 it.

10 Q. Well, and I was just going to get to, in general, would
11 you agree that a definition of a "capital asset" is
12 something that provides future benefits for future
13 periods?

14 A. (Hall) Yes, long-term benefit/long-term value.

15 Q. And, that's essentially what's -- what the
16 capitalization issue is that we're talking here, which
17 is different than if you go out and trim a tree, and
18 five years later you go back and trim it again?

19 A. (Hall) Correct.

20 Q. Thank you. So, it's only a subset of your overall
21 Vegetation Management Program?

22 A. (Hall) Yes.

23 MR. MULLEN: Thank you.

24 BY MS. AMIDON:

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1 Q. I have a couple of additional questions regarding the
2 proposal to increase the annual revenue to the Major
3 Storm Cost Reserve --

4 A. (Hall) Okay.

5 Q. -- by \$5 million, to \$12 million annually. Could you
6 explain what exercise the Company did to reach that
7 conclusion that \$12 million was appropriate? In other
8 words, did you look at storms over a recent period, and
9 the costs incurred by the Company, and determine the
10 appropriate level of funding?

11 A. (Hall) It wasn't in that -- it wasn't to that degree of
12 detail. But, certainly, what the -- the reason that we
13 have such a high level of deferred costs, as compared
14 to the balance in the reserve, is that, in recent
15 years, it seems that almost every year we get a really
16 significant major storm that causes an extensive amount
17 of damage. And, whether that will continue or not, we
18 don't know. So, our proposal is really one of "Let's
19 try to catch up at least to where we are with regard to
20 the amount of storm costs that have been deferred as of
21 today. Let's at least try to catch up over the next
22 two years." If we continue to have more major storms,
23 it may well be that, you know, a few years down the
24 road we may have to reexamine the level of funding.

[WITNESS PANEL: Stelnitz~Hall]

1 Q. And, following that point, the level of funding can
2 always be revisited, and, if the determination is that
3 you now have too much or overcollecting for that
4 particular fund?

5 A. (Hall) Yes. Of course.

6 Q. But the request is based on the severity of and the
7 frequency of recent storms, and evaluating what the
8 Company needs to do to have an adequate reserve to fund
9 future major storms?

10 A. (Hall) Yes.

11 Q. Is there a benefit to customers for not deferring the
12 negative balances in the Storm Reserve, in terms, for
13 example, carrying costs?

14 A. (Hall) Yes. I was just going to say it's avoidance of
15 carrying costs. To the extent that customers pay for
16 it more quickly up front, they don't pay for carrying
17 costs on the deferred balance.

18 MS. AMIDON: Okay. Thank you. And,
19 that concludes my questions.

20 CHAIRMAN IGNATIUS: Thank you.

21 Commissioner Harrington.

22 CMSR. HARRINGTON: Yes. Good morning.

23 WITNESS HALL: Good morning.

24 CMSR. HARRINGTON: I just had a couple

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1 of questions, actually.

2 BY CMSR. HARRINGTON:

3 Q. In Exhibit 1, I was wondering if you could explain, on
4 the first schedule there, SRH/MLS-1, it appears in a
5 couple of the pages, 4 and 5. What is the "Accumulated
6 Reserve"? I understand "Plant Total" and "Net Book
7 Value". What does that term refer to?

8 A. (Shelnitz) That's after accumulated depreciation.

9 Q. So, how would you go from plant total to accumulated
10 reserve then?

11 A. (Shelnitz) No, that -- "plant total" is like the gross,
12 the gross cost of the plant. And, then, "accumulated
13 reserve" is really accumulated depreciation up to that
14 point.

15 Q. Oh, okay.

16 A. (Shelnitz) And, then, it's just net book value is
17 after, you know, applying accumulated depreciation
18 after.

19 Q. All right. Going on that same exhibit, in the same
20 section, going down a few more pages, to Page 7, I
21 guess it continues onto Page 8, this is where you talk
22 about the Reliability Enhancement Program. There's,
23 you know, it's not a large amount of money, but there's
24 a number of things where it just says "reliability

[WITNESS PANEL: Stelnitz~Hall]

1 improvement", then it lists a bunch of different
2 districts. And, some months you have expenditures,
3 some months you don't. Could you just give some
4 typical examples of what the reliability improvements
5 in these various places are. Not specific to any one
6 place, because there's probably -- probably a lot of
7 overlap. But what are the types of reliability
8 enhancements or improvements we're talking about?

9 A. (Hall) If it's okay, I'm going to have to take a record
10 request. I would be speculating.

11 Q. Okay.

12 A. (Hall) And, I would prefer to ask the person who knows
13 what these things are and respond that way.

14 CMSR. HARRINGTON: Well, I'm not sure
15 how we, just given the timeframe here, I don't want to
16 have this hold up. It's just -- this is information I
17 would like. So, maybe if you could just submit something,
18 but don't make an official record request, can we do that?

19 CHAIRMAN IGNATIUS: Well, I'm wondering,
20 we're here this afternoon as well on the other docket, and
21 whether there's any information that could be supplied,
22 either through a witness here right now or from the
23 office?

24 WITNESS HALL: We could check.

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[WITNESS PANEL: Stelnitz~Hall]

1 CHAIRMAN IGNATIUS: And, I think it --

2 WITNESS HALL: I think any -- I'm sorry.

3 CHAIRMAN IGNATIUS: Well, just I take
4 it, Commissioner Harrington, you're not asking for what
5 was done in Keene, but what are the kinds of things that
6 would be lumped --

7 WITNESS HALL: Right.

8 CHAIRMAN IGNATIUS: -- into the category
9 of "reliability improvements"?

10 CMSR. HARRINGTON: Yes. Exactly. Just,
11 you know, a typical list of reliability improvements, what
12 they are.

13 WITNESS HALL: And, if there is no one
14 available today to respond, I believe we can respond by
15 tomorrow.

16 CMSR. HARRINGTON: Oh. Okay. All
17 right. Then, thank you. And, that's all I have.

18 CHAIRMAN IGNATIUS: Then, we probably
19 should reserve -- well, let's see. Let's see, if we -- I
20 take that back. Let's reserve a record request for that,
21 as "Exhibit 2". And, hopefully, sometime today we'll have
22 it described. You'll get the information and it can be
23 put into a quick even an e-mail document would be fine for
24 the record. And, if not, it could come in tomorrow.

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(Exhibit 2 reserved)

BY CHAIRMAN IGNATIUS:

Q. I had a question about the decision of how you allocate REP and non-REP improvements. I'm thinking about the example of Bedford, a few years ago, was experiencing both a number of problems in its distribution service, because of it being heavily wooded, and also experiencing difficulties because there was a lot of growth in the area. It seemed to fit your distinctions of how you sort into one category and the other, and Bedford seemed to be one that fit both of those. So, how do you make that decision on which side it falls?

A. (Hall) I can tell you generally, but that's about the limit of my knowledge. Generally speaking, non-REP is typical types of maintenance trimming that would traditionally be done under -- under good utility practice. Reliability enhancement is just that. It's something -- it's projects that are undertaken that are over and above what would normally be done, and, therefore, are intended specifically to improve reliability.

Things like wholesale replacements of ceramic insulators. As ceramic ages, it gets old, it cracks, it fails, and it results in an outage. You

1 wouldn't normally go out and engage in a wholesale -- a
2 large-scale replacement of ceramic insulators, simply
3 because of the cost involved and the nature of the
4 work. But it's something we do under REP.

5 Another example is enhanced tree
6 trimming, which is basically ground-to-sky clearance,
7 typically not the kind of thing that's done under
8 traditional utility practice.

9 So, generally speaking, it's things that
10 are over and above. If you want more specifics, I'll
11 be glad to provide that, but I just can't do it. I'm
12 going to have to check with someone else.

13 Q. No, that's helpful. Thank you. Also, there was a
14 question that Ms. Chamberlin raised about the timing of
15 the Commission's order on pre-staging costs and the
16 storms themselves.

17 A. (Hall) Okay.

18 Q. And, that two of them were prior to the issuance of the
19 order. I don't recall, in the order, if there was
20 identification of the time period that that staging
21 mechanism would apply, do you know?

22 A. (Hall) There wasn't. There wasn't. It was simply an
23 order approving PSNH's proposal. And, you know, we
24 recognize that two of these storms, we engaged in the

[WITNESS PANEL: Stelnitz~Hall]

1 activity prior to the issuance of the order. And, what
2 we're asking here is "don't punish us for doing the
3 right thing", that's essentially what we're saying.

4 Q. Do the materials submitted identify -- it identifies
5 the particular storms, but does it break out the storms
6 by cost per each of them?

7 A. (Hall) Yes.

8 Q. Yes, it does, actually. It looks like the footnote on
9 Page 3 identifies the date of the storm and the amount
10 involved.

11 A. (Hall) Yes.

12 Q. Okay. And, do you recall, in the materials that led up
13 to issuance of that order, which is 25,465, was that a
14 separate docket or was that something growing out of
15 another docket?

16 A. (Hall) The order allowing pre-staging?

17 Q. Yes.

18 A. (Hall) I believe it was a separate docket.

19 Q. And, was that at the request -- was that opened based
20 on a petition from the Company or at the Commission's
21 request, do you recall?

22 A. (Hall) I believe we made the filing based on the
23 Staff's report on one of the October storms, and I
24 don't recall which one.

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[WITNESS PANEL: Stelnitz~Hall]

1 MS. CHAMBERLIN: Your Honor, if I may, I
2 have a copy of the order. And, it says "Public Service
3 Company of New Hampshire filed a Petition for Recovery of
4 Pre-staging Costs."

5 CHAIRMAN IGNATIUS: All right.
6 Obviously, we'll go back and review that order. All
7 right. I have no other questions. Thank you very much.

8 WITNESS HALL: Thank you.

9 CHAIRMAN IGNATIUS: Mr. Fossum, any
10 redirect?

11 MR. FOSSUM: Yes, one brief one, just
12 for a clarification.

13 **REDIRECT EXAMINATION**

14 BY MR. FOSSUM:

15 Q. In a prior docket this morning, Docket 12-291, there
16 was a document introduced as "Exhibit 10". Mr. Hall,
17 do you have that document available?

18 A. (Hall) I do. I have it.

19 Q. And, does that document incorporate all of the changes
20 that PSNH has proposed for this step adjustment?

21 A. (Hall) Yes.

22 Q. And, where would one look to see the changes that would
23 occur to -- well, that document shows the different
24 rate levels that would be applied to different portions

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[WITNESS PANEL: Stelnitz~Hall]

1 of the Company's rates, is that correct? Is that --

2 A. (Hall) Yes.

3 Q. And, where would one look to see the impact of the
4 Company's proposed changes in this docket on that
5 exhibit?

6 A. (Hall) Under the column labeled "Distribution".

7 MR. FOSSUM: Thank you. That was all.

8 CHAIRMAN IGNATIUS: Thank you. Then,
9 you're excused, but why don't you stay put for a moment.

10 Any objection to striking the
11 identification on Exhibit 1?

12 (No verbal response)

13 CHAIRMAN IGNATIUS: Seeing no objection,
14 we'll do so. Anything prior to closing statements?

15 (No verbal response)

16 CHAIRMAN IGNATIUS: All right. Then,
17 Ms. Chamberlin.

18 MS. CHAMBERLIN: Thank you. In my
19 questions, I raised two issues. The first was the storm
20 costs. This is not a question of reward or punishment,
21 this is simply a question of retroactive ratemaking. And,
22 once the Commission issues the order, the authority goes
23 forward, it doesn't go back. As Mr. Mullen's questions
24 pointed out, this is what the Company would do regardless.

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1 And, we are pleased that they did their job. It's just
2 that they did not have authority to recover these costs
3 until the Commission issued the order. And, so, for that
4 reason, we are proposing that those costs are not to be
5 recovered. Mr. Eckberg points out that the total amount
6 is 2.31 million for the two storms.

7 And, regarding the accounting treatment,
8 this was -- this docket, in particular, was very difficult
9 to cover in the short time available. There's just a lot
10 of moving parts and a lot of detail. And, this is one
11 that jumped out at me, because it is, in my mind, a
12 significant philosophical change. And, I'm not aware of
13 all of the financial implications, but utilities have
14 always trimmed trees, utilities have always cut down
15 trees, and it's always been considered O&M costs, and to
16 have this change to be capitalized is a significant
17 change. There may be reasons for it. But we did not have
18 any time to explore those. We asked and received some
19 information, which was helpful. But my concern is that,
20 if this sets precedent, and going forward, I don't know
21 that the cost impact will be more significant than the
22 \$100,000 that's at discussion today.

23 I don't quite understand how you take a
24 tree down, and there's nothing there, you now have an

1 asset that you are depreciating. And, how would you just
2 calculate the life of that non-tree? I don't know. But
3 it's certainly one that I would highlight that should be
4 explored. And, if the Company has to redo its books, then
5 so be it. We can't simply have a significant change
6 without fully understanding it and fully exploring it.

7 CHAIRMAN IGNATIUS: Thank you. Ms.
8 Amidon.

9 MS. AMIDON: Thank you. Staff has
10 reviewed and investigated each of the elements in this
11 filing. And, we believe the step adjustment for -- was
12 appropriately calculated, and that the non-REP capital
13 expense is also appropriately calculated. We support the
14 Company removing the costs that were incurred to retain a
15 consultant in the matter of the uncollectibles, and the
16 removal of the marketing costs for the Renewable Energy
17 Service Option.

18 With respect to the Major Storm Cost
19 Reserve, the Company testified that there were more
20 frequent storms of unusual severity, and proposed to
21 increase that amount on an annual basis, from 7 to
22 \$12 million. And, we believe that's appropriate, and it
23 will benefit customers, to the extent that the carrying
24 costs associated with the negative balances will not be

1 paid by the customers.

2 And, finally, with respect to the two
3 pre-staging events that occurred prior to the order issued
4 in Docket 12-320, you know, I'm mindful or Staff is
5 mindful of the fact that the filing was initiated in
6 October 2013, and -- 2012 -- yes, that would be a little
7 off -- and that, you know, these storms were unforeseen
8 events at the time of the filing, and it seems to us that
9 it's appropriate to allow recovery of these two
10 pre-staging events from the Major Storm Cost Reserve.
11 And, in that order on this docket, the Commission said
12 "Costs of preparing and planning for predicted weather
13 systems that are found to meet the criteria and be prudent
14 and reasonable should be recovered as part of good utility
15 management." And, Staff's point of view is that the
16 Company experienced good utility management in pre-staging
17 these two events, and would support the Company's request
18 to recover the costs associated with those events from the
19 Major Storm Cost Reserve. Thank you.

20 CHAIRMAN IGNATIUS: Thank you.

21 Mr. Fossum.

22 MR. FOSSUM: Thank you. Picking up, I
23 suppose, where it was just left off, on the issue of Major
24 Storm Cost Reserve, PSNH believes that recovery of the

1 costs, including those pre-staging costs that predated the
2 Commission's order, is appropriate in this instance. The
3 order itself notes that, if I may quote, "As outlined in
4 our", and "our" being the Commission's, "October 2011
5 Snowstorm Report, restoration of power is an essential
6 electric utility function and proper pre-staging is an
7 important element of ensuring timely restoration of
8 service. To the extent that recovering appropriate
9 pre-staging through the MSCR facilitates timely
10 restoration, this should be encouraged." And, PSNH
11 believes that it is acting consistent with the activities
12 that the Commission has sought to encourage. The
13 Commission has noted, at least in the last, and here with
14 Staff, in the last two reports that it has issued on storm
15 response, that more timely restoration is something that
16 the Commission will be looking to encourage going forward.
17 And, that companies should be more proactive in engaging
18 activities such as pre-staging. So, this is -- PSNH is
19 responding to the Commission's concerns in that area.

20 To the point that Ms. Chamberlin made
21 about "this is something that the Company would do
22 anyway", that is true today, but hasn't always been the
23 case. And, to the degree that the Company engages in
24 pre-staging lately, this is a relatively new phenomenon,

1 in light of what has been occurring in the weather and the
2 resulting impacts on the electric system over the last few
3 years. So, to that extent, the Company believes that
4 recovery of all of the costs included in this filing is
5 appropriate.

6 As to the issue of capitalizing
7 particular tree removal, as was noted in the questions
8 from Mr. Mullen, that this is a -- the capitalization
9 applies to a small subset of or a subset of the types of
10 trees that are addressed by the Company's REP Program, and
11 the impact is relatively small. And, to the best of my
12 knowledge and understanding, this change has been made
13 consistent with Generally Accepted Accounting Principles.

14 I would also note that the adjustment to
15 REP plant that is being requested, the 1.6 million, is a
16 specific amount from the Settlement Agreement, and is not
17 contingent upon the treatment of those activities as
18 either capitalized or O&M.

19 So, with that, the Company would request
20 that the step adjustment, as contained in the filing, the
21 five elements that are in it, be approved as filed, and
22 that the rate changes that result from that step be
23 permitted to go into effect on July 1st, along with the
24 other changes requested today.

1 CHAIRMAN IGNATIUS: All right. Thank
2 you. We will take all of this under advisement. We
3 appreciate your quick work on all of these dockets that
4 are moving towards a July 1 requested implementation date,
5 and we will meet that deadline. With that, we are
6 adjourned.

7 (Whereupon the hearing ended at 12:00
8 p.m.)
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